WOODS HOLE,
MARTHA'S VINEYARD
AND NANTUCKET

STEAMSHIP AUTHORITY

2016 ANNUAL REPORT

DEDICATED TO ROBERT L. O'BRIEN

for his 25 years of service as the Town of Barnstable's Steamship Authority Member

The Steamship Authority's long history of success in meeting its legislative mission without local or state tax subsidies would not have been possible without the guidance and oversight provided over the years by the governing board of Authority Members and the Steamship Authority's Port Council and Finance Advisory Board members. The present and past members have unselfishly devoted many hours of public service representing their respective islands, towns and communities while also fulfilling their fiduciary duties in overseeing the management, operation and direction of the Steamship Authority's business and affairs.

Bob O'Brien exemplified this dedication to public service on behalf of the Steamship Authority. Bob's expertise from his decades of service in the United States Coast Guard was vividly on display over the last 25 years during the transformation of the Authority's fleet. Some of the vessel construction, vessel modification and mid-life refurbishment projects included:

- Construction of the *M/V Martha's Vineyard*
- Acquisition of the *M/V Sankaty*
- Acquisition of the *M/V Governor*
- Repowering, lengthening and widening of the *M/V Katama*
- Repowering, lengthening and widening of the *M/V Gay Head*
- Construction and repowering of the *M/V Flying Cloud*
- Lengthening and widening of the *M/V Sankaty*
- Construction of the *M/V Island Home*
- Construction of the *M/V Iyanough*
- Mid-life refurbishment of the *M/V Nantucket*
- Mid-life refurbishment of the *M/V Eagle*
- Construction of the *M/V Woods Hole*

Bob also played a critical role in fashioning the Authority's capital projects in Hyannis, including the reconstruction of the Hyannis terminal and slip improvements. They both greatly improved the Authority's operations and were welcomed by the Hyannis community.

We are grateful to Bob for his guidance and leadership while serving as the Town of Barnstable's Member. The Steamship Authority dedicates its 2016 Annual Report in recognition of his 25 years of distinguished public service to the Steamship Authority and the traveling public, including residents, visitors, freight shippers, commuters and students, all of whom rely on the Authority to provide them with safe and reliable ferry transportation throughout the year.

In November, Bob passed the torch to Robert R. Jones, who was appointed by the Barnstable Town Council to succeed Bob as Barnstable's Authority Member. Mr. Jones shares Bob's remarkable commitment to public service, and already has served as the Town of Barnstable's Port Council member for the last 14 years.

To: His Excellency, the Governor

To: The Members of the General Court

The 2016 Annual Report of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority is respectfully submitted in accordance with Section 13 of Chapter 701 of the Acts of 1960, as amended by Chapter 276 of the Acts of 1962.

Sincerely,

Moira E. Tierney
New Bedford
Chairman, 2017

AUTHORITY MEMBERS – 2016

Elizabeth H. Gladfelter

CHAIRMAN
FALMOUTH

Moira E. Tierney

VICE CHAIRMAN
NEW BEDFORD

Robert F. Ranney

SECRETARY
NANTUCKET

Robert L. O'Brien

BARNSTABLE
January–November

Robert R. Jones

BARNSTABLE
November–December

Marc N. Hanover

MARTHA'S VINEYARD

Port Council Members – 2016

Robert V. Huss - Oak Bluffs, Chairman
George J. Balco - Tisbury, Vice Chairman
Robert S. C. Munier - Falmouth, Secretary
Robert R. Jones - Barnstable (January–November)
Frank J. Rezendes - Fairhaven
Nathaniel E. Lowell - Nantucket
Edward C. Anthes-Washburn - New Bedford

Wayne C. Lamson - General Manager
Robert B. Davis - Treasurer/Comptroller
Steven M. Sayers - General Counsel

WOODS HOLE, MARTHA'S VINEYARD AND NANTUCKET

STEAMSHIP AUTHORITY

2016 ANNUAL REPORT • TABLE OF CONTENTS

2016 Overview	4-13
Traffic Statistics	14-17
Independent Auditors' Report	20-21
Management's Discussion and Analysis (Unaudited)	22-35
Financial Statements as of and for the Years Ended December 31, 2016 and 2015:	
Statements of Net Position	36-37
Statements of Revenues, Expenses and Changes in Net Position	38
Statements of Cash Flows	39
Notes to Financial Statements	40-66
Required Supplementary Information (Unaudited):	
Schedule of Changes in Net Pension Liability of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority Pension Plan	67
Schedule of Employer Contribution of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority Pension Plan	68
Schedule of Funding Progress of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority Other Postemployment Benefit Plan	69
Schedule of Employer Contributions to the Multiemployer Pension Plans	70

2016 OVERVIEW

2016 was another successful year for the Steamship Authority. The Steamship Authority's vessels made a total of 22,703 trips carrying 3,127,304 passengers, 482,699 automobiles and 182,099 trucks of all sizes to or from the islands of Martha's Vineyard and Nantucket during the year. The total number of passengers, automobiles and trucks carried in 2016 increased by 3.4%, 3.7% and 5.3%, respectively, from the previous year. Approximately 62% of all trucks carried by the Authority in 2016 were less than 20 feet in length. The Authority's high-speed passenger vessel, the *M/V Iyanough*, carried more than 354,000 passengers between Hyannis and Nantucket. Also in 2016, approximately 35% of the automobiles carried by the Authority originated from the islands and travelled at auto excursion rates.

The Authority's operating revenues in 2016 totaled $103,896,139, an increase of $3,839,352, or 3.8%, over 2015. Passenger revenue accounted for 32% of the Authority's total operating revenues in 2016 whereas automobile, freight and parking revenues represented 29%, 26% and 7%, respectively, of the Authority's 2016 total operating revenues.

Operating expenses totaled $93,751,455 in 2016, an increase of $5,437,832, or 6.2%, compared to the previous year. Maintenance expenses increased by $1,829,000, or 10.7%, from 2015. The increases in maintenance expenses in 2016 were primarily attributable to an increase in dry dock expenses for the *M/V Sankaty* and *M/V Governor* and the year-round expansion of the Authority's vessel overhaul and repair work. With the addition of the *M/V Woods Hole* to the fleet in June, this year-round vessel repair schedule now provides the Authority with the ability to take one of the freight boats out of line service during the summer months for scheduled maintenance and still have another freight boat available on a standby basis for emergency use. The Authority's depreciation expenses increased by $528,000, or 5.2%, compared to the previous year, due to the addition of a full year of depreciation for the

Thomas B. Landers Road parking lot facility and a partial year of depreciation associated with the Authority's new vessel, the *M/V Woods Hole*.

General expenses increased by $1,831,000, or 9.1%, from 2015, including increases in pension contributions of $817,000 and $534,000 in added employee health care costs.

Interest on bonds and other fixed charges were offset by license fee income and other income to bring the Authority's total net operating income in 2016 to $9,955,422, a decrease of $1,347,449, or 11.9%, from the previous year. It was the 54th consecutive year without a deficit assessment on the taxpayers of the Authority's port communities.

The Authority started 2016 with a net operating loss of $10,613,000 over the first four months, which is somewhat typical each year, and had to rely on revenues generated by operating activities during the summer season to provide sufficient income to cover its total cost of service for the year.

The net cash provided by the Authority's operating activities each year is used to pay bond principal and to replace or upgrade its vessels, terminals and equipment.

Cash transfers from the Authority's Revenue Fund to its special-purpose funds in 2016 included $8,654,000 to the Sinking Fund to pay bond interest and principal coming due within the next 12 months, $10,161,805 to the Replacement Fund and $4,051,279 to the Bond Redemption Account. The Authority disbursed $17,517,000 from its Capital Improvement Fund and $4,076,000 from its Replacement Fund during 2016 in connection with various capital projects, including $17,831,000 toward the construction of the *M/V Woods Hole*, $1,135,000 for stormwater management improvements at the Thomas B. Landers Road parking lot, $598,000 for new shuttle buses, $396,000 toward the cost of design and engineering services for the *M/V Martha's Vineyard* mid-life refurbishment project scheduled for the fall of 2017, $290,000 for tow motors and luggage carts, and $266,000 for the replacement of eleven (11) rescue boats.

A more detailed analysis of the Authority's financial statements for the year ended December 31, 2016 and further information regarding its 2016 fund transfers and use of special-purpose funds are included in the Management's Discussion and Analysis section of this report.

M/V WOODS HOLE

The construction of the *M/V Woods Hole*, which began with the award of a contract to Conrad Shipyard LLC of Morgan City, Louisiana in December 2014, was completed in May 2016. The vessel was constructed according to the Authority's requirements and was designed by Elliott Bay Design Group of Seattle, Washington, the same firm that designed the Authority's last new vessel, the *M/V Island Home*.

A christening ceremony for the *M/V Woods Hole* was held at Conrad's shipyard in Amelia, Louisiana on May 20, 2016. The Authority's Chairman, Elizabeth H. Gladfelter of Falmouth, christened the new ferry with the words: "Eternal Father strong to save, whose arm hath bound the restless wave, bless this ship and her crew, bring her safely to Woods Hole, and watch over her through the many decades, and grant her fair winds, calm seas, favorable tides and good fortune, I christen thee *M/V Woods Hole*," and then she performed the time-honored tradition of breaking a ceremonial bottle of champagne across the vessel's hull.

On June 6, 2016, Conrad delivered the vessel to the Authority's Fairhaven Vessel Maintenance Facility after a five-and-a-half day trip from Louisiana. The Authority held a commissioning ceremony for the vessel in Woods Hole on June 13, 2016. We were honored to have in attendance United States Representative William Keating, State Senator Viriato deMacedo, State Representative Timothy Madden, John Waterhouse from Elliott Bay Design Group, Dan Conrad from Conrad Shipyard and the Massachusetts Maritime Academy's Color Guard. After a brief open house in Woods Hole following the commissioning ceremony, the Authority also held open houses in Vineyard Haven and Nantucket before placing the vessel into regular service on the Martha's Vineyard route on June 17, 2016.

The *M/V Woods Hole* is a single-ended, drive-through vessel with a partially open freight deck at the stern. The vessel is a 235-foot long passenger and vehicle ferry with a 64-foot beam capable of carrying up to 10 tractor-trailer trucks, (or 50-55 automobiles) and up to 384 persons, including crew. The vessel was designed to be able to operate on both of the Authority's routes, between Woods Hole and Martha's Vineyard as well as between Hyannis and Nantucket with a full load of vehicles. The vessel is equipped with controllable pitch propellers and Becker flap rudders; state-of-the-art radar, communications and navigation systems; a passenger elevator; two rescue boats and other emergency equipment that exceed United States Coast Guard requirements, such as a marine

evacuation slide and life raft system for 100% of the vessel's passenger capacity; and numerous electrical outlets throughout the vessel for charging mobile devices. The new vessel has successfully demonstrated her maneuverability, versatility and reliability on both routes over her first six months of service.

The final cost of designing and constructing the new vessel, including owner-furnished equipment and the cost of having owner representatives on site at the shipyard during the 17-month construction period, amounted to $40,275,000, just $39,000 over the Authority's budgeted cost estimate.

The Authority engaged the services of the Woods Hole Historical Museum to provide historical images of Woods Hole and to research and provide interpretative text for sign panels that are of particular interest to passengers traveling on the new vessel. The sign panels provide historical information on topics ranging from early industries and science in the village to tourism, the railroad and ferries.

WOODS HOLE TERMINAL RECONSTRUCTION PROJECT

Design and engineering for the reconstruction of the Woods Hole terminal began in March 2013 when the firm of Bertaux + Iwerks Architects of Boston, Massachusetts was selected by the Massachusetts Designer Selection Board to perform study and design services.

For much of 2014 the Authority, along with Bertaux + Iwerks, worked with representatives from the Woods Hole Community Association and the Woods Hole Business Association to develop a consensus design concept to achieve the various functional, customer experience and community outcomes that had previously been provided to Bertaux + Iwerks.

Most of the design work in 2015 included going through the Massachusetts Environmental Policy Act (MEPA) process with the Executive Office of Energy and Environmental Affairs and submitting a Notice of Intent with the Falmouth Conservation Commission. The Authority received the Secretary of Energy and Environmental Affairs' Certificate in October 2015 and the Falmouth Conservation Commission's Order of Conditions for the project in April 2016. The United States Army Corps of Engineers issued its permit and the Massachusetts Department of Environmental Protection (DEP) issued its draft Chapter 91 waterways license for the project in September 2016.

In September 2016, a group of 13 Falmouth residents objected to DEP's draft Chapter 91 waterways license and filed a notice of appeal alleging that the project will interfere with navigation and the public rights of fishing, fowling and access to the Commonwealth's tidelands. At the Authority's request, DEP scheduled an expedited hearing on the appeal for January 2017. The 13 residents bear the burden of proving that the project will "significantly interfere" with public rights of navigation, fishing, fowling and access to the tidelands under DEP's regulations.

Because of the possibility that any significant ongoing construction activities during the summer months may have a detrimental impact on the Woods Hole community, the Martha's Vineyard economy and the Authority's operations, the Authority has concluded that the reconstruction of the terminal site should be scheduled in phases during the offseason as much as practicable. The proposed phases include:

Phase 1: Construct a new administration building within the Palmer Avenue parking lot and construct a temporary terminal building at the Woods Hole terminal.

Phase 2A: After moving to the new administration building and temporary terminal building, demolish the existing terminal/General Offices building and excavate a portion of the existing retained-earth pier.

Phase 2B: Partially construct a new Slip 3, to be relocated generally where the wharf is currently located.

Phase 3: Complete construction of new Slip 3 and construct new Slip 2 (formerly Slip 1) with new passenger loading walkways, ramps and an outer floating passenger platform.

Phase 4: Complete construction of new Slip 1 (formerly Slip 2) with new passenger loading walkways, ramps and an outer floating passenger platform.

Phase 5: Following reconstruction of the three ferry slips, construct the new terminal building. This work may extend past mid-June into the summer season between Phases 5 and Phase 6.

Phase 6: Complete remaining work to be done at the site, including removal of the temporary terminal building, reconstruction of vehicle staging lanes, construction of equipment storage building and final landscaping.

The Authority expects the last construction phase to be completed by June 2023.

FEASIBILITY OF PROVIDING FREIGHT SERVICE BETWEEN NEW BEDFORD AND MARTHA'S VINEYARD

In April 2016 the Authority's staff issued its preliminary report on the feasibility of providing freight ferry service between New Bedford and Martha's Vineyard. The report identified various vessel and service alternatives for providing a freight ferry service that would have the greatest chance of success over the long term. The different alternatives included: (1) having the Authority provide the service with one of its own vessels; (2) chartering an existing freight vessel to provide the service; (3) chartering a new catamaran freight vessel; (4) licensing a private carrier to provide the service at its own financial risk; and (5) licensing a tug and barge service capable of transporting containerized freight and vehicles on a "roll-on/roll-off" basis. The staff also considered potential terminal facilities on Martha's Vineyard and in New Bedford that could be made available to accommodate the service without a huge investment.

After considering all of those alternatives, the staff concluded that:

- The freight service should start as a summer service only.
- The freight service should initially operate only on weekdays.
- The operating schedule should consist of two round-trips per day.
- The Authority should explore a time charter, or the hiring of a vessel and crew, to provide the service instead of using its "spare" freight boat.
- The Authority should provide reservation and ticketing services for the New Bedford freight service.
- The Authority should explore whether freight trucks can be transported between New Bedford and Martha's Vineyard without drivers.
- The first daily trip from New Bedford tentatively should be designated as a "hazardous cargo" trip.
- The freight service should be provided for a minimum of at least several years.

Although the report described a potential scenario for freight ferry service between New Bedford and Martha's Vineyard, the staff does not believe that the Authority should bear the cost of constructing and maintaining a freight ferry terminal in New Bedford that would be necessary to provide the service or should subsidize the cost of the service through an increase in its fares for travel between Woods Hole and Martha's Vineyard or otherwise. Rather, the staff believes that, in order to be fair and equitable to the residents of Martha's Vineyard, any New Bedford freight service must effectively pay for itself or be funded by one or more entities other than the Authority, especially when the service's benefits will be regional in nature and, unlike other residents of the Commonwealth, the Authority's ratepayers are already paying almost the entire cost of their transportation between the islands and the mainland ports of Woods Hole and Hyannis.

The staff continues to explore alternatives for a freight ferry service between New Bedford and Martha's Vineyard that will have the best chance to succeed over the long term.

NEW ADMINISTRATIVE OFFICES

In October 2016 the Authority awarded a contract for the construction of its Administrative Offices to G & R Construction, Inc. of Quincy, Massachusetts for a total contract price of $12,687,000. Prior to the opening of bids, the Authority was provided with a cost estimate for the contract of $13,000,000. The building will be a three-story structure with a full basement, approximately 32,000 square feet in size, located within the Palmer Avenue parking lot, and will serve as the Authority's new administrative offices, public meeting space and IT/data center. The contract work includes associated site work for utilities, storm water drainage, new paved parking areas and landscaping. The project manual for the contract contains more than 1,500 pages of specifications and 239 pages of contract drawings. All of the work specified under the contract is required to be completed by January 3, 2018.

NEW MODULAR TEMPORARY WOODS HOLE TERMINAL BUILDING

The Authority awarded a contract in November 2016 for its new modular temporary terminal building at the Woods Hole terminal to Triumph Modular, Inc. of Littleton, Massachusetts in the amount of $2,591,182. According to Triumph's proposal, the temporary terminal building, containing approximately 3,600 square feet of floor area, is estimated to be completed as early as June 2017, although the contract does not require that it be completed until December 2017.

In August 2016 the Authority obtained a variance from the State Building Code Appeals Board that allows the Authority to construct the temporary terminal building with a first floor elevation of 9 feet, 6 inches above sea level instead of 13 feet above sea level, as would otherwise be required by the State Building Code. Because the current site's elevation is only five to six feet above sea level, it would have been impracticable for several reasons for the temporary terminal building to be installed at a higher elevation, including: (1) the need for an excessively long ramp system or the installation of an elevator; (2) more difficult access to ticketing, food concessions, restrooms and waiting areas for a large number of customers using the terminal on a daily basis; and (3) additional foundation and infrastructure elements, all of which would have to be removed following completion of the permanent terminal building in approximately five years.

In the event of an anticipated flood at the site, ferry operations will be suspended and the temporary terminal building will be closed and secured prior to the flooding of the terminal area. The state Architectural Access Board supported the Authority's request for relief under the State Building Code since it found that the required access to the temporary terminal will fully comply with its regulations without the need for a longer ramp system.

COMPLAINTS OF EARLY MORNING NOISE AT THE WOODS HOLE TERMINAL

In late 2015 the Authority started to receive complaints about the noise at the Woods Hole terminal during the early morning hours relating to back-up alarms of trucks while they were being loaded onto one of the Authority's freight boats. The Authority had operated a 5:30 a.m. trip from Woods Hole during summer months for the previous four summers with a drive-through vessel that does not require trucks to back onto the vessel. In addition, for the prior three years, the Authority had operated a 5:30 a.m. trip in the spring with a freight boat that requires trucks to back onto the vessel. In 2015, a 5:30 a.m. trip was added for the first time in the fall to address the shortage of automobile space coming off-island in the morning for Vineyard residents.

In response to the complaints and the need to balance competing public interests, the Authority continued its efforts to mitigate whatever excessive noise that is generated at the terminal during the early morning hours. These efforts have included:

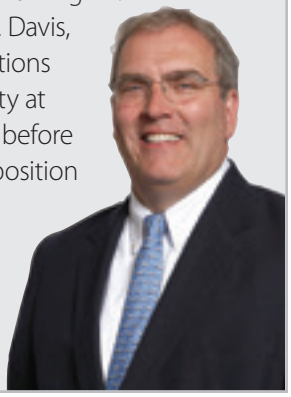
- changing the opening time of the terminal so that it now does not open until one-half hour before the first vessel departure;
- changing the way trucks are staged on the property prior to loading for the first few trips of the day in order to minimize the need for back-up alarms as much as possible;
- posting additional "no idling" signs around the terminal;
- sending letters to all of the regular freight shippers asking them to be courteous to the neighbors by obeying speed limits and refraining from using engine brakes ("Jake brakes") on Woods Hole Road; and
- using the Authority's variable message sign on Route 28 South in Falmouth to inform drivers traveling towards Woods Hole that there are "No SSA Trucks in Woods Hole before 5:00 a.m."

The complaints about noise from the Woods Hole terminal during the early morning hours were also addressed by the Authority by reducing the time of the year in which the 5:30 a.m. trip from Woods Hole is scheduled, from going through the end of the year in 2015, to going through December 7th in 2016. The 5:30 a.m. trip from Woods Hole in 2017 is scheduled to go through October 27th, and that trip will be operated by a drive-through vessel instead of a freight boat that requires trucks to back onto the vessel.

Through the Authority's efforts, and with help from the Woods Hole terminal employees, progress has been made in reducing early morning noise at the Woods Hole terminal, not only in the fall but throughout the year.

AUTHORITY MEMBERS APPOINT NEW GENERAL MANAGER

In July 2016 General Manager Wayne C. Lamson informed the Authority Members that he would be retiring on June 30, 2017 after 13 years at the helm and a 45-year career with the Authority. The Members voted unanimously in October 2016 to select the Authority's Treasurer/Comptroller Robert B. Davis as its next General Manager following Mr. Lamson's retirement. Mr. Davis, who has held many positions of increasing responsibility at the Authority since 1986 before being promoted to the position of Treasurer/Comptroller in 2005, will assume his new duties and responsibilities on July 1, 2017.



EMBARKATION FEES COLLECTED ON BEHALF OF THE PORT COMMUNITIES

The Authority collected town-mandated ferry embarkation fees totaling $1,015,696 from passengers traveling on its vessels during 2016.

A state law passed in 2003 allows any city or town in Barnstable, Dukes, Nantucket and Bristol counties to accept a provision that requires the Authority and certain other private ferry operators to impose a 50-cent-per-person ferry embarkation fee for travel originating from its community. The law exempts specific passengers from the town-mandated fee, including certain island residents traveling at excursion rates, commuters using ticket books and those traveling in school-related groups. The law also exempts passengers carried on ferry boats that are licensed by the United States Coast Guard to transport not more than 100 passengers.

The fees collected under the statute by the various ferry operators are distributed to the respective municipalities through the Massachusetts Department of Revenue. The statute requires each city or town to deposit the monies received into a special fund "to be solely appropriated for the purpose of mitigating the impacts of ferry service on the city or town. Monies deposited may be appropriated for services including, but not limited to, providing harbor services, public safety protection, emergency services or infrastructure improvements within and around the harbor."

The ferry embarkation fees collected by the Authority were distributed through the Massachusetts Department of Revenue to the following port towns that have accepted the provisions of the statute:

	2016	TOTAL 2004–2016
BARNSTABLE *	$ 91,299	$ 1,050,064
FALMOUTH	387,507	4,628,999
NANTUCKET	122,167	1,390,258
OAK BLUFFS	124,355	1,331,233
TISBURY	259,936	3,231,734
YARMOUTH **	30,432	350,021

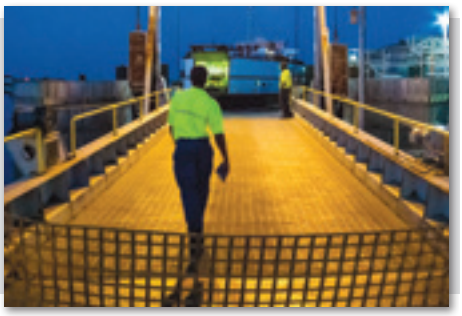
** 75% of fees collected from passengers departing from the town of Barnstable*

*** 25% of fees collected from passengers departing from the town of Yarmouth*

By the end of 2016, a total of $11,982,309 in ferry embarkation fees had been collected from passengers traveling on the Authority's vessels and distributed to the Authority's port towns over the last 13 years pursuant to the provisions of chapter 46 of the Acts of 2003, as amended by chapter 55 of the Acts of 2003 and chapter 65 of the Acts of 2004.

A WORD OF THANKS TO OUR EMPLOYEES

It would not have been possible to provide another year of safe and reliable service without the continued dedication and commitment of hundreds of men and women involved in so many aspects of the Authority's operations. The Authority provides service for the islands of Martha's Vineyard and Nantucket 365 days per year and sometimes under difficult and challenging circumstances. The Authority's crews completed a combined 22,703 trips during the year 2016, an increase of 266 trips over 2015. The number of cancelled trips in 2016, due to adverse weather conditions, totaled 514 trips (242 trips on the Vineyard route and 272 trips on the Nantucket route). Another 52 trips were cancelled during 2016 for mechanical reasons.



Often our crews go above and beyond, and 2016 was no different. This past year Captain David Moore was presented with a letter of commendation from the U.S. Coast Guard for his swift action while responding to a distress call from the commercial fishing vessel *Sky Pie* in Nantucket Sound on the morning of August 30, 2016. The *M/V Nantucket* was en route from Hyannis to Nantucket when Captain Moore, hearing on the ship's radio that a fisherman had fallen overboard from the *Sky Pie*, diverted the ferry into close proximity of the fishing vessel and the crew quickly launched the vessel's rescue boat. The rescue boat crew swiftly maneuvered the boat to allow for a safe retrieval of the fisherman out of the water within minutes. The crew's timely response, based on their training and experience, undoubtedly saved the fisherman's life. Captain Moore's crew included Pilot/Mate Christopher Keating, Purser/AB Barry Fuller, Boatswain/AB Carlos Tavares, Able Seaman Timothy Smith, Able Seaman Richard Fraser, Able Seaman Tom Keleher, Ordinary Seaman Doug Aguiar, Chief Engineer Edward Kelleher and Oiler Bruce Demers.

Once again in 2016, the Authority engaged an outside research firm to conduct a survey of our customers so that we would have a better understanding of their perception of our operations. On a scale of 1 to 10 (with 1 being "not at all likely" and 10 being "very likely"), 78% of our customers who were surveyed gave us a 9 or 10 rating in response to being asked how likely they would be to recommend us to a friend, compared to 70% in 2015, and 94% gave us a rating of 7 or higher, the same as in 2015.

We thank each of our employees for their individual efforts in helping to continuously improve the Authority's overall level of customer service and for contributing to another successful year.

TRAFFIC STATISTICS

Passengers Carried

Number of passengers carried from each port during 2016.

FROM:	WOODS HOLE	VINEYARD HAVEN	OAK BLUFFS	NANTUCKET	HYANNIS
TO:					
WOODS HOLE		939,277	292,826		
VINEYARD HAVEN	930,317				
OAK BLUFFS	304,337				
NANTUCKET					327,307
HYANNIS				333,240	
TOTAL: 2016	1,234,654	939,277	292,826	333,240	327,307
TOTAL: 2015	1,192,803	916,459	269,041	324,637	320,150
CHANGE:	3.5%	2.5%	8.8%	2.7%	2.2%

Passengers Carried and Revenue - 2016 vs. 2015

	NUMBER OF PASSENGERS			TICKETED REVENUE FROM PASSENGERS CARRIED*			AVERAGE REVENUE PER PASSENGER		
MONTH	2015	2016	CHANGE	2015	2016	CHANGE	2015	2016	CHANGE
JANUARY	103,046	114,683	11.3%	$ 837,547	$ 933,141	11.4%	$ 8.13	$ 8.14	0.1%
FEBRUARY	86,425	104,494	20.9%	715,496	833,907	16.5%	8.28	7.98	-3.6%
MARCH	117,212	130,505	11.3%	975,380	1,046,464	7.3%	8.32	8.02	-3.6%
APRIL	177,882	185,330	4.2%	1,644,392	1,759,624	7.0%	9.24	9.49	2.7%
MAY	287,285	288,863	0.5%	3,029,676	3,124,831	3.1%	10.55	10.82	2.6%
JUNE	327,774	346,631	5.8%	3,577,890	3,726,074	4.1%	10.92	10.75	-1.6%
JULY	481,425	503,565	4.6%	5,335,037	5,555,947	4.1%	11.08	11.03	-0.5%
AUGUST	511,156	503,239	-1.5%	5,698,080	5,560,950	-2.4%	11.15	11.05	-0.9%
SEPTEMBER	343,735	343,569	-0.0%	3,858,938	3,680,019	-4.6%	11.23	10.71	-4.6%
OCTOBER	249,493	264,043	5.8%	2,539,334	2,757,638	8.6%	10.18	10.44	2.6%
NOVEMBER	172,485	179,606	4.1%	1,756,357	1,903,721	8.4%	10.18	10.60	4.1%
DECEMBER	165,172	162,776	-1.5%	1,797,645	1,777,633	-1.1%	10.88	10.92	0.4%
TOTAL	3,023,090	3,127,304	3.4%	$ 31,765,772	$ 32,659,949	2.8%	$ 10.51	$ 10.44	-0.7%

* Ticketed revenue from passengers carried differs from passenger revenue in the financial statements due to classification and timing differences.

Automobiles Carried

Number of automobiles carried from each port during 2016.

FROM:	WOODS HOLE	VINEYARD HAVEN	OAK BLUFFS	NANTUCKET	HYANNIS
TO:					
WOODS HOLE		171,896	35,087		
VINEYARD HAVEN	165,808				
OAK BLUFFS	42,752				
NANTUCKET					34,036
HYANNIS				33,120	
TOTAL: 2016	208,560	171,896	35,087	33,120	34,036
TOTAL: 2015	200,405	166,279	32,593	32,672	33,348
CHANGE:	4.1%	3.4%	7.7%	1.4%	2.1%

Automobiles Carried and Revenue - 2016 vs. 2015

	NUMBER OF AUTOMOBILES			TICKETED REVENUE FROM AUTOMOBILES CARRIED*			AVERAGE REVENUE PER AUTOMOBILE		
MONTH	2015	2016	CHANGE	2015	2016	CHANGE	2015	2016	CHANGE
JANUARY	20,519	22,315	8.8%	$ 662,689	$ 722,950	9.1%	$ 32.30	$ 32.40	0.3%
FEBRUARY	16,584	21,578	30.1%	515,791	678,050	31.5%	31.10	31.42	1.0%
MARCH	23,880	26,319	10.2%	782,849	900,654	15.0%	32.78	34.22	4.4%
APRIL	31,578	32,264	2.2%	1,628,061	1,669,211	2.5%	51.56	51.74	0.3%
MAY	41,413	42,089	1.6%	2,664,140	2,705,243	1.5%	64.33	64.27	-0.1%
JUNE	49,732	50,701	1.9%	3,829,349	3,879,453	1.3%	77.00	76.52	-0.6%
JULY	61,885	64,303	3.9%	5,249,914	5,489,114	4.6%	84.83	85.36	0.6%
AUGUST	66,458	65,287	-1.8%	5,821,700	5,606,586	-3.7%	87.60	85.88	-2.0%
SEPTEMBER	50,858	51,960	2.2%	3,715,924	3,802,100	2.3%	73.06	73.17	0.2%
OCTOBER	39,497	41,235	4.4%	2,293,796	2,446,690	6.7%	58.08	59.34	2.2%
NOVEMBER	32,221	34,019	5.6%	1,208,077	1,269,833	5.1%	37.49	37.33	-0.4%
DECEMBER	30,672	30,629	-0.1%	1,062,486	1,065,544	0.3%	34.64	34.79	0.4%
TOTAL	**465,297**	**482,699**	**3.7%**	**$ 29,434,776**	**$ 30,235,428**	**2.7%**	**$ 63.26**	**$ 62.64**	**-1.0%**

* Ticketed revenue from automobiles carried differs from automobile revenue in the financial statements due to classification and timing differences.

TRAFFIC STATISTICS *(continued)*

Trucks Carried

Number of trucks carried from each port during 2016.

FROM:	WOODS HOLE	VINEYARD HAVEN	OAK BLUFFS	NANTUCKET	HYANNIS
TO:					
WOODS HOLE		57,763	7,690		
VINEYARD HAVEN	58,345				
OAK BLUFFS	7,787				
NANTUCKET					25,555
HYANNIS				24,959	
TOTAL: 2016	66,132	57,763	7,690	24,959	25,555
TOTAL: 2015	62,704	55,933	6,441	23,603	24,180
CHANGE:	5.5%	3.3%	19.4%	5.7%	5.7%

Trucks Carried and Revenue - 2016 vs. 2015

	NUMBER OF TRUCKS			TICKETED REVENUE FROM TRUCKS CARRIED*			AVERAGE REVENUE PER TRUCK		
MONTH	2015	2016	CHANGE	2015	2016	CHANGE	2015	2016	CHANGE
JANUARY	10,259	11,419	11.3%	$ 1,420,488	$ 1,476,412	3.9%	$ 138.46	$ 129.29	-6.6%
FEBRUARY	9,488	11,179	17.8%	1,341,755	1,496,487	11.5%	141.42	133.87	-5.3%
MARCH	13,430	14,995	11.7%	1,876,099	2,011,533	7.2%	139.69	134.15	-4.0%
APRIL	15,613	16,317	4.5%	2,372,316	2,442,199	2.9%	151.94	149.67	-1.5%
MAY	17,576	18,201	3.6%	2,709,884	2,855,051	5.4%	154.18	156.86	1.7%
JUNE	17,421	18,105	3.9%	2,859,114	2,968,291	3.8%	164.12	163.95	-0.1%
JULY	16,748	16,513	-1.4%	2,852,150	2,809,183	-1.5%	170.30	170.12	-0.1%
AUGUST	14,710	15,940	8.4%	2,496,561	2,780,643	11.4%	169.72	174.44	2.8%
SEPTEMBER	15,564	15,899	2.2%	2,347,099	2,436,838	3.8%	150.80	153.27	1.6%
OCTOBER	15,277	15,444	1.1%	2,155,280	2,179,385	1.1%	141.08	141.12	0.0%
NOVEMBER	13,591	14,595	7.4%	1,709,853	1,865,725	9.1%	125.81	127.83	1.6%
DECEMBER	13,184	13,492	2.3%	1,702,130	1,753,121	3.0%	129.11	129.94	0.6%
TOTAL	**172,861**	**182,099**	**5.3%**	**$ 25,842,729**	**$ 27,074,868**	**4.8%**	**$ 149.50**	**$ 148.68**	**-0.5%**

* Ticketed revenue from trucks carried differs from freight revenue in the financial statements due to classification and timing differences.

A 10-YEAR TRAFFIC HISTORY

Passengers Carried

	MARTHA'S VINEYARD	NANTUCKET	TOTAL
2007	2,143,160	549,206	**2,692,366**
2008	2,174,185	517,846	**2,692,031**
2009	2,179,567	513,611	**2,693,178**
2010	2,213,800	522,347	**2,736,147**
2011	2,189,530	522,517	**2,712,047**
2012	2,244,441	558,539	**2,802,980**
2013	2,263,708	582,983	**2,846,691**
2014	2,287,999	605,852	**2,893,851**
2015	2,378,303	644,787	**3,023,090**
2016	2,466,757	660,547	**3,127,304**

Vehicles Under 20′ in Length Carried

(including automobiles, pickup trucks, vans, etc.)

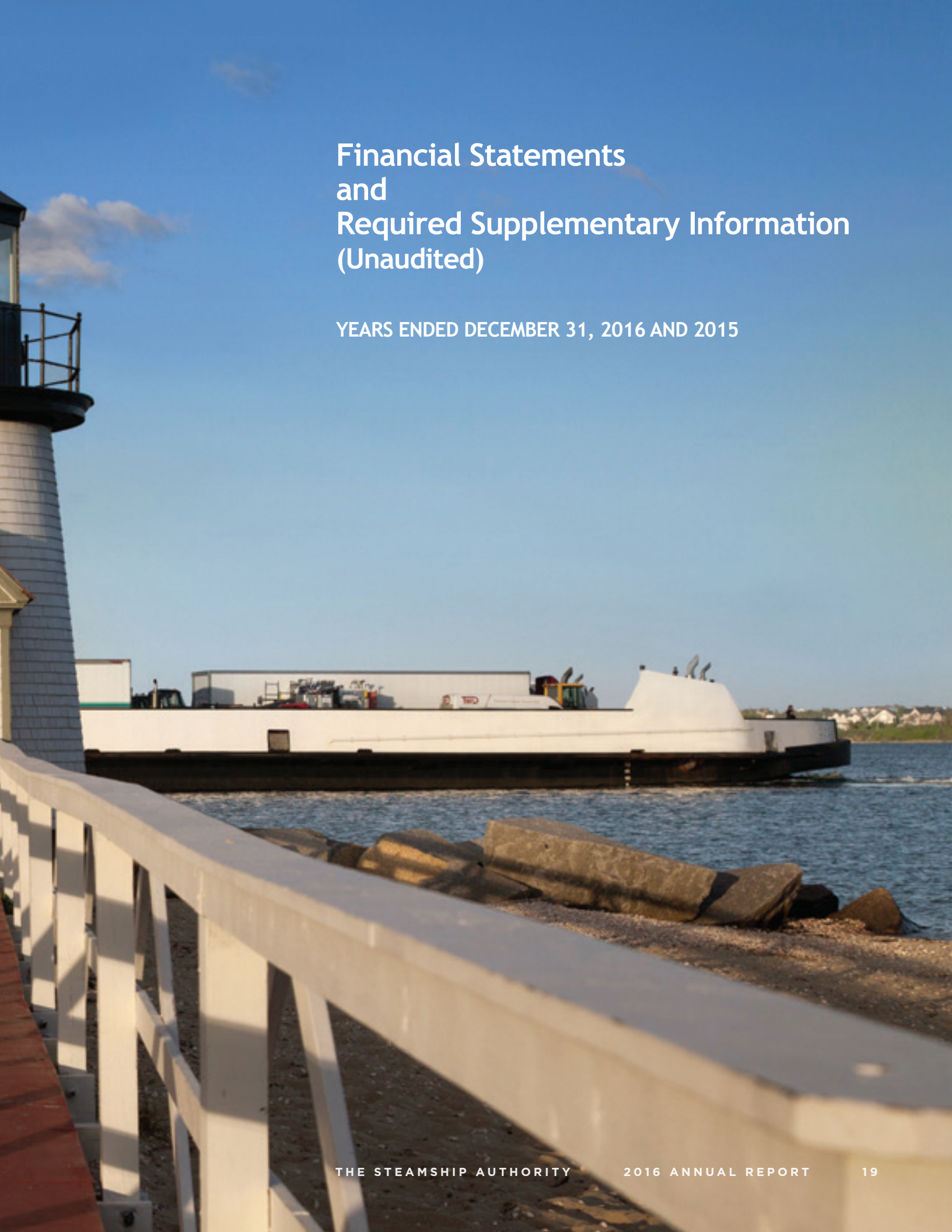
	MARTHA'S VINEYARD	NANTUCKET	TOTAL
2007	432,331	88,022	**520,353**
2008	434,246	84,554	**518,800**
2009	440,058	81,212	**521,270**
2010	445,662	81,789	**527,451**
2011	446,360	80,180	**526,540**
2012	455,894	80,551	**536,445**
2013	462,148	79,928	**542,076**
2014	466,900	82,308	**549,208**
2015	475,286	84,215	**559,501**
2016	496,785	86,086	**582,871**

Vehicles 20′ and Over in Length Carried

(including trucks, trailers, buses, campers, etc.)

	MARTHA'S VINEYARD	NANTUCKET	TOTAL
2007	47,856	30,992	**78,848**
2008	47,335	28,615	**75,950**
2009	44,246	24,137	**68,383**
2010	44,467	23,233	**67,700**
2011	44,037	23,524	**67,561**
2012	42,617	24,545	**67,162**
2013	45,638	26,720	**72,358**
2014	47,344	27,707	**75,051**
2015	49,069	29,588	**78,657**
2016	50,343	31,584	**81,927**

GAY HEAD



Financial Statements and Required Supplementary Information (Unaudited)

YEARS ENDED DECEMBER 31, 2016 AND 2015

RSM

RSM US LLP

To the Woods Hole, Martha's Vineyard and
Nantucket Steamship Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Authority"), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of December 31, 2016 and 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, the Schedule of Changes in Net Pension Liability and the Schedule of Employer Contribution to the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority Pension Plan, the Schedule of Funding Progress of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority Other Postemployment Benefit Plan, and the Schedule of Employer Contributions to the Multiemployer Pension Plans* as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

RSM US LLP

Boston, Massachusetts
March 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

As management of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Authority" or "Steamship Authority"), we offer readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended December 31, 2016 and 2015. The Steamship Authority is a public instrumentality created by the legislature of the Commonwealth of Massachusetts under Chapter 701 of the Acts of 1960, as amended (the "Act"), "in order to provide adequate transportation of persons and necessaries of life for the islands of Nantucket and Martha's Vineyard".

Overview of the Financial Statements

This overview and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority is a special-purpose governmental entity engaged in only business-type activities. As such, its financial statements consist of only those required for enterprise funds and the related notes. The Authority's financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. In addition to the basic financial statements, this report includes notes to the financial statements and also contains required supplementary information pertaining to the pension plans and other postemployment benefit plan of the Authority.

The statements of net position report assets plus deferred outflows of resources, liabilities plus deferred inflows of resources and the difference between them as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position consists of three sections: net investment in capital assets; restricted; and unrestricted. The net investment in capital assets component of the net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. All other net position is unrestricted.

The statements of revenues, expenses and changes in net position report the operating revenues and expenses and nonoperating revenues and expenses of the Authority for the year with the difference, the net income or loss, being combined with any capital grants and contributions, income from special-purpose restricted funds, and special items to determine the change in net position for the year. That change combined with the net position at the end of the previous year reconciles to the net position at the end of the current year.

The statements of cash flows report cash and cash equivalents activities for the year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net results of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the current year.

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The basic financial statements can be found on pages 40-66 of this report. In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information (RSI). RSI contains data related to the Authority's defined benefit pension plan, other postemployment benefit (OPEB) plan provided to its employees, and contributions made to the multiemployer plans. The RSI can be found on pages 67-70 of this report.

Condensed Financial Information

Condensed financial information from the statements of net position and the statements of revenues, expenses and changes in net position for the years ended December 31, are as follows:

	2016	2015
Current and other noncurrent assets	$ 18,629,422	$ 21,360,053
Special-purpose restricted funds	43,932,247	50,954,358
Capital assets, net	163,848,715	150,713,497
Total assets	226,410,384	223,027,908
Deferred outflows of resources	4,953,909	3,191,908
Total assets and deferred outflows of resources	**$ 231,364,293**	**$ 226,219,816**
Current liabilities	$ 13,325,150	$ 14,177,505
Liabilities payable from special-purpose restricted funds	6,765,160	6,615,632
Noncurrent liabilities	94,721,425	100,020,043
Total liabilities	114,811,735	120,813,180
Deferred inflows of resources	1,238,810	493,117
Net position:		
Net investment in capital assets	91,642,338	89,365,765
Restricted	41,324,128	30,804,314
Unrestricted	(17,652,718)	(15,256,560)
Net position	115,313,748	104,913,519
Total liabilities, deferred inflows of resources, and net position	**$ 231,364,293**	**$ 226,219,816**
Operating revenues:		
Total operating revenues	$ 103,896,139	$ 100,056,787
Operating expenses:		
Total operating expenses	93,751,455	88,313,623
Operating income	**10,144,684**	**11,743,164**
Nonoperating (expenses) revenues:		
Interest on bonds and other obligations	(2,687,224)	(2,357,137)
Miscellaneous revenue	2,616,813	2,206,799
Miscellaneous expense	(118,851)	(289,955)
Net nonoperating expenses	(189,262)	(440,293)
Income before capital grants and contributions and income from special-purpose restricted funds	9,955,422	11,302,871
Capital grants and contributions	205,270	1,247,901
Income from special-purpose restricted funds	239,537	95,234
Change in net position	**10,400,229**	**12,646,006**
Net position, beginning of year	**104,913,519**	**92,267,513**
Net position, end of year	**$ 115,313,748**	**$ 104,913,519**

FINANCIAL ANALYSIS

Comparison of Financial Condition at December 31, 2016 and 2015

The Authority's total assets and liabilities were $226,410,384 and $114,811,735, respectively, as of December 31, 2016, as compared to $223,027,908 and $120,813,180, respectively, at December 31, 2015. The Authority's deferred outflows of resources were $ 4,953,909 and $3,191,908, for the years ended December 31, 2016 and 2015, respectively. The Authority's deferred inflows of resources were $1,238,810 and $493,117, for the years ended December 31, 2016 and 2015, respectively. The net position as of December 31, 2016, was $115,313,748, a 9.9% increase from the prior fiscal year-end.

The increase in total net position was $10,400,229 for the year ended December 31, 2016, down from the $12,646,006 increase in total net position posted in 2015. Income before capital grants and contributions and income from special-purpose restricted funds in 2016 decreased $1,347,449, or 11.9%, compared to the prior year.

The decrease in income before capital grants and contributions and income from special-purpose restricted funds was primarily attributed to a $5,437,832, or 6.2% increase in the Authority's total operating expenses. Total operating revenues for the year ended December 31, 2016 increased by $3,839,352, or 3.8% versus the previous year while nonoperating expenses decreased by $251,031, or 57.0%. These changes are discussed in greater detail in the following sections.

During 2016, the Steamship Authority was awarded grants under the Ferry Boat Discretionary Program, the Port Security Program, the Tribal Transportation Program and from the Federal Emergency Management Agency (FEMA) Public Assistance (PA) Program. These awards are recorded under the heading Capital Grants and Contributions in the Statements of Revenues, Expenses and Changes in Net Position.

Operating Revenues

The Steamship Authority's total operating revenues in 2016 were $103,896,139. Total operating revenues increased by $3,839,352 or 3.8% for the year ended December 31, 2016.

The number of passengers carried increased by 104,214 or 3.4% in 2016 from 2015. Ridership on the conventional service increased by 96,712 riders or 3.6%, while passenger traffic carried on the *M/V Iyanough* increased by 7,502 passengers or 2.2% for the year as compared to 2015. In addition, the average revenue per passenger decreased from $10.68 in 2015 to $10.63 in 2016, due in part to the increase in riders on the traditional service as well as the increased usage of discounted books. Total passenger revenues in 2016 were $33,232,039, an increase of 2.9% versus the previous year.

The number of automobiles carried increased by 17,402 or 3.7% in 2016 versus 2015. The average revenue per automobile decreased from $63.12 in 2015 to $62.53 in 2016, due in part to a change in the mix of automobiles carried on the Martha's Vineyard and Nantucket routes as well as the increase in ridership during the off season. Total automobile revenues in 2016 were $30,181,713, an increase of 2.8% versus the previous year.

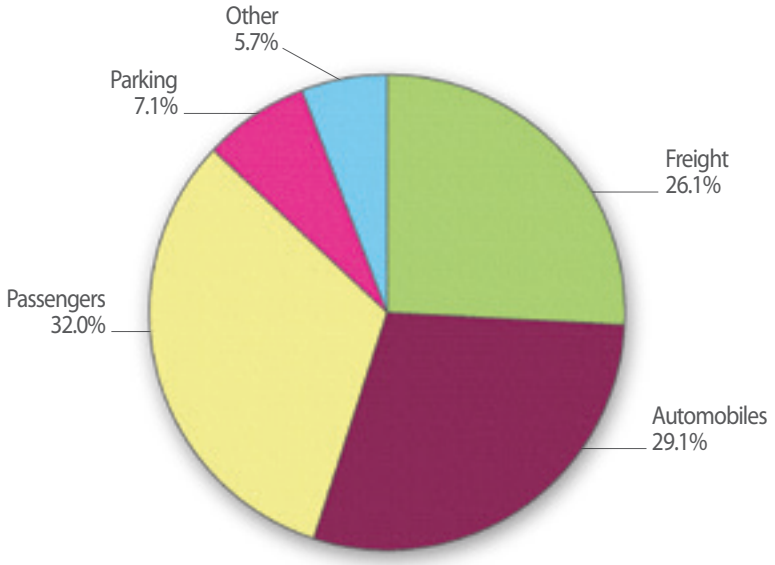
The number of trucks carried increased by 9,238 or 5.3% in 2016 from 2015 traffic levels. The average revenue per truck decreased from $149.75 in 2015 to $149.09 during 2016, due in part to an overall increase in trucks carried to Nantucket and Martha's Vineyard as well as the increase in ridership during the off season. Total freight revenues in 2016 were $27,149,383, an increase of 4.9% versus the previous year.

FINANCIAL ANALYSIS...continued
Operating Revenues...continued

Parking revenue in 2016 increased by $458,460 from 2015, primarily as a result of an increase in cars parked at the Falmouth and Hyannis area lots. The total number of cars parked increased by 6,500 or 3.5% versus 2015. Total parking revenues in 2016 were $7,398,054, an increase of 6.6% versus the previous year.

Other miscellaneous operating revenues increased by $357,410 or 6.4% in 2016, primarily due to increases in cancellation penalties and miscellaneous driver service charges.

The major sources of operating revenues for the year ended December 31, 2016, were as follows:



FINANCIAL ANALYSIS...continued

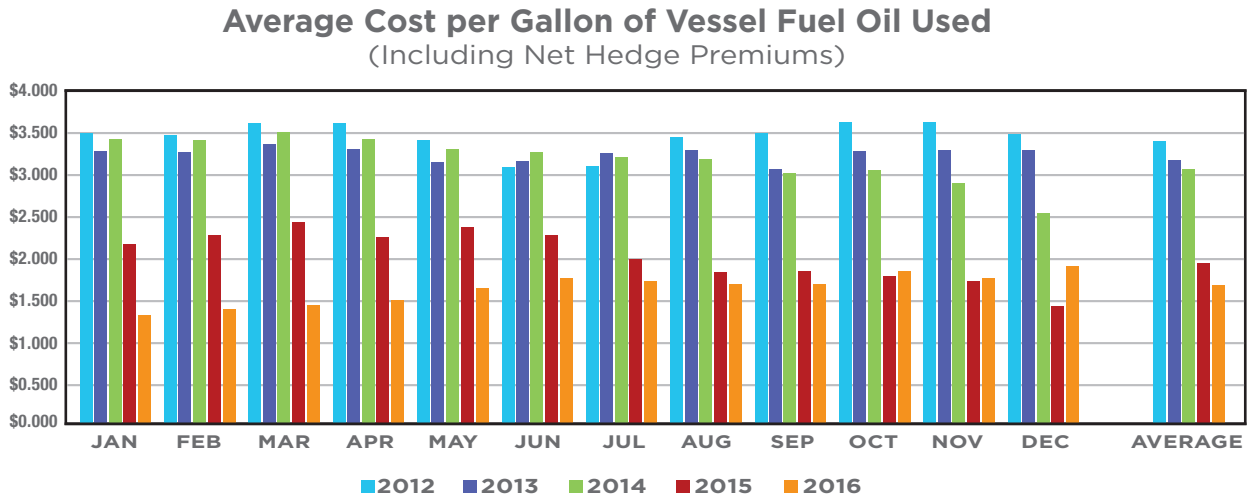
Operating Expenses

The Authority's total operating expenses in 2016 were $93,751,455; in 2015, total operating expenses were $88,313,623. Total operating expenses in 2016 were $5,437,832, or 6.2% higher than the previous year. Decreases in vessel fuel oil costs were offset by higher maintenance expense, wages and benefits, depreciation expense, advertising, rents, and insurance expense, compared to the prior year.

Maintenance expense increased in 2016 versus 2015 by $1,828,933, or 10.7%. The increase was primarily attributable to vessel dry-dock expense increases of $438,316; life raft renewal increases of $261,373; engine parts and engine repairs expense increases of $177,719; terminal and equipment repairs increases of $201,632; vessel repairs expense increases of $725,077; combined with decreases in dolphin and dock work of $466,208.

Depreciation and amortization expense increased in 2016 versus 2015 by $527,949, or 5.2%. This increase was primarily attributable to the addition of a full year's depreciation for the Thomas B. Landers Parking Facility and a partial year's depreciation for the *M/V Woods Hole*.

Vessel operating expenses increased by $120,617, or 0.6% versus 2015. This increase was chiefly due to higher vessel payroll expense. In 2016, vessel payroll expense increased by $684,342 or 4.8% versus 2015 payroll expense. Vessel fuel oil expense, including hedging premiums and commissions, was $4,967,467, which was $650,501 or 11.6% lower in 2016 than in 2015. The average cost per gallon of fuel used operating in 2016 was $1.661, which represents a decrease of 15.5% over the average cost per gallon of fuel used in 2015 of $1.965.



During 2016, the Authority operated 22,703 vessel trips, which represented an increase of 266 trips, or 1.2% versus 2015.

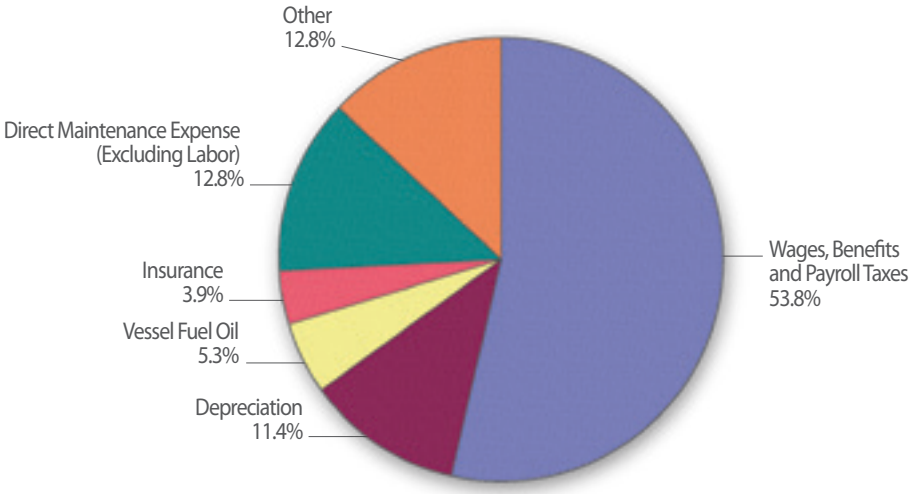
FINANCIAL ANALYSIS...continued
Operating Expenses...continued

Expenses related to the Operation of Terminals and Parking Lots increased in 2016 versus 2015 by $360,017, or 3.3%. This increase was primarily attributed to a 4.3% or $369,189 increase in payroll costs; a $39,415 or 16.2% decrease in water expenses; and an $11,519 or 4.1% decrease in gas and electric costs.

Expenses to operate Reservations and Customer Service increased in 2016 versus 2015 by $306,108, or 10.7%. This increase was primarily attributed to higher advertising expense and other traffic expense of $179,570 or 12.8% along with a $122,930 or 9.4% increase in payroll expense.

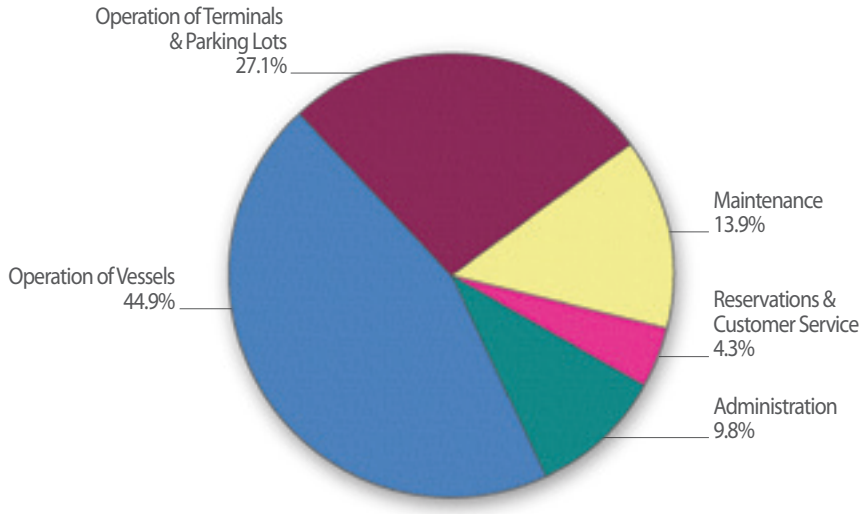
General and administration expense, which includes insurance, payroll taxes, rents, pension and health care costs, increased by $1,831,228 in 2016, or 9.1% versus 2015. Increases in pension expense of $816,728 or 14.3%; health care expense of $534,099 or 8.3%; credit card processing fees of $109,203 or 5.8%; and payroll expense of $231,604 or 7.7% were partially offset by decreases of $116,932 or 14.4% in unemployment contributions.

The major sources of operating expenses for the year ended December 31, 2016, were as follows:



FINANCIAL ANALYSIS...continued
Operating Expenses...continued

53.8% of the Authority's operating expenses in 2016 were attributed to wages and the cost of employee benefits. The Authority's payroll in 2016 was distributed to the following functions:



Comparison of Financial Condition at December 31, 2015 and 2014

The Authority's total assets and liabilities were $223,027,908 and $120,813,180, respectively, as of December 31, 2015, as compared to $174,763,005 and $82,706,709, respectively, at December 31, 2014. The Authority's deferred outflows of resources were $3,191,908 and $798,261, for the years ended December 31, 2015 and 2014, respectively. The Authority's deferred inflows of resources were $493,117 and $587,044, for the years ended December 31, 2015 and 2014, respectively. The net position as of December 31, 2015, was $104,913,519, a 13.7% increase from the prior fiscal year-end.

The increase in total net position was $12,646,006 for the year ended December 31, 2015, up from the $8,315,016 increase in total net position posted in 2014. Income before capital grants and contributions and income from special-purpose restricted funds in 2015 increased $3,570,162, or 46.2%, compared to the prior year.

The increase in income before capital grants and contributions and income from special-purpose restricted funds was primarily attributed to a $6,274,188, or 6.7% increase in the Authority's total operating revenues. Total operating expenses for the year ended December 31, 2015 increased by $2,953,944, or 3.5% versus the previous year, while nonoperating expenses decreased by $249,918, or 36.2%. These changes are discussed in greater detail in the following sections.

During 2015, the Steamship Authority was awarded grants under the Ferry Boat Discretionary Program, the Port Security Program and from the Federal Emergency Management Agency (FEMA) Public Assistance (PA) Program. These awards are recorded under the heading Capital Grants and Contributions in the Statements of Revenues, Expenses and Changes in Net Position.

FINANCIAL ANALYSIS...continued

Operating Revenues

The Steamship Authority's total operating revenues in 2015 were $100,056,787. Total operating revenues increased by $6,274,188 or 6.7% for the year ended December 31, 2015. In order to ensure sufficient income to meet the cost of service in 2015, the Authority Members approved certain rate increases that became effective January 6, 2015.

The number of passengers carried increased by 129,239 or 4.5% in 2015 from 2014. Ridership on the conventional service increased by 101,512 riders or 3.9%, while passenger traffic carried on the *M/V Iyanough* increased by 27,727 passengers or 8.7% for the year as compared to 2014. In addition, the average revenue per passenger increased from $10.18 in 2014 to $10.68 in 2015, due in part, to the increase in riders on the high-speed service as well as the rate increases which became effective January 6, 2015. Total passenger revenues in 2015 were $32,285,844, an increase of 9.6% versus the previous year.

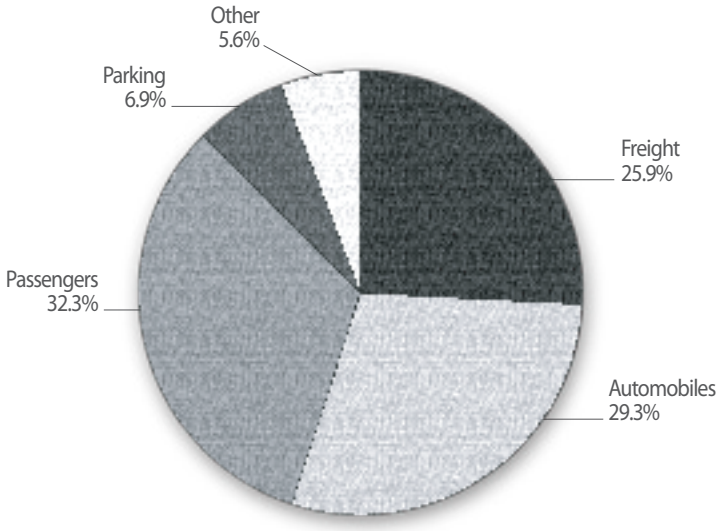
The number of automobiles carried increased by 7,615 or 1.7% in 2015 versus 2014. The average revenue per automobile increased from $62.14 in 2014 to $63.12 in 2015, due in part, to a change in the mix of automobiles carried on the Martha's Vineyard and Nantucket routes as well as the increases in ridership. Total automobile revenues in 2015 were $29,367,504, an increase of 3.3% versus the previous year.

The number of trucks carried increased by 6,284 or 3.8% in 2015 from 2014 traffic levels. The average revenue per truck increased from $146.84 in 2014 to $149.75 during 2015, due in part to an overall increase in trucks carried to Nantucket and Martha's Vineyard . Total freight revenues in 2015 were $25,886,305, an increase of 5.8% versus the previous year.

Parking revenue in 2015 increased by $566,199 from 2014, primarily as a result of an increase in cars parked at the Falmouth and Hyannis area lots as well as the rate increases which became effective January 6, 2015. The total number of cars parked increased by 11,027 or 6.4% versus 2014. Total parking revenues in 2015 were $6,939,594, an increase of 8.9% versus the previous year.

Other miscellaneous operating revenues increased by $517,947 or 10.2% in 2015, primarily due to increases in cancellation penalties and miscellaneous service charges for driver services as well as certain rate increases which became effective January 6, 2015.

The major sources of operating revenues for the year ended December 31, 2015, were as follows:



FINANCIAL ANALYSIS...continued

Operating Expenses

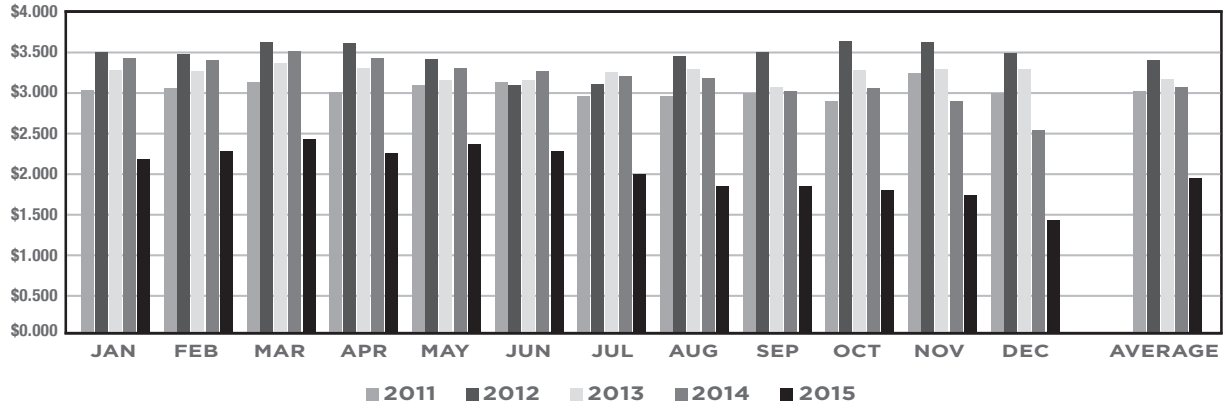
The Authority's total operating expenses in 2015 were $88,313,623; in 2014, total operating expenses were $85,359,679. Total operating expenses in 2015 were $2,953,944, or 3.5% higher than the previous year. Decreases in vessel fuel oil costs were offset by higher maintenance expense, wages and benefits, depreciation expense, advertising, rents, and insurance expense, compared to the prior year.

Maintenance expense increased in 2015 versus 2014 by $3,259,490, or 23.6%. The increase was primarily attributable to vessel dry-dock expense increases of $1,448,732; dolphin and dock work increases of $639,058; terminal and equipment repairs increases of $606,837; as well as engine parts and engine repairs expense increases of $575,233.

Depreciation and amortization expense increased in 2015 versus 2014 by $22,028, or 0.2%. This increase was primarily attributable to the addition of a full year's depreciation for Phase II of the Palmer Avenue Parking Lot Re-Development project and a partial year's depreciation for the Thomas B. Landers Parking Facility.

Vessel operating expenses decreased by $2,328,046, or 10.1% versus 2014. This decrease was chiefly due to lower vessel fuel oil expense. Vessel payroll expense in 2015 increased by $797,366 or 5.9% versus 2014 payroll expense. Vessel fuel oil expense, including hedging premiums and commissions, was $5,617,968, which was $3,130,051 or 35.8% lower in 2015 than in 2014. The average cost per gallon of fuel used operating in 2015 was $1.965, which represents a decrease of 37.5% over the average cost per gallon of fuel used in 2014 of $3.142.

Average Cost per Gallon of Vessel Fuel Oil Used
(Including Net Hedge Premiums)



During 2015, the Authority operated 22,437 vessel trips, which represented an increase of 330 trips, or 1.5% versus 2014.

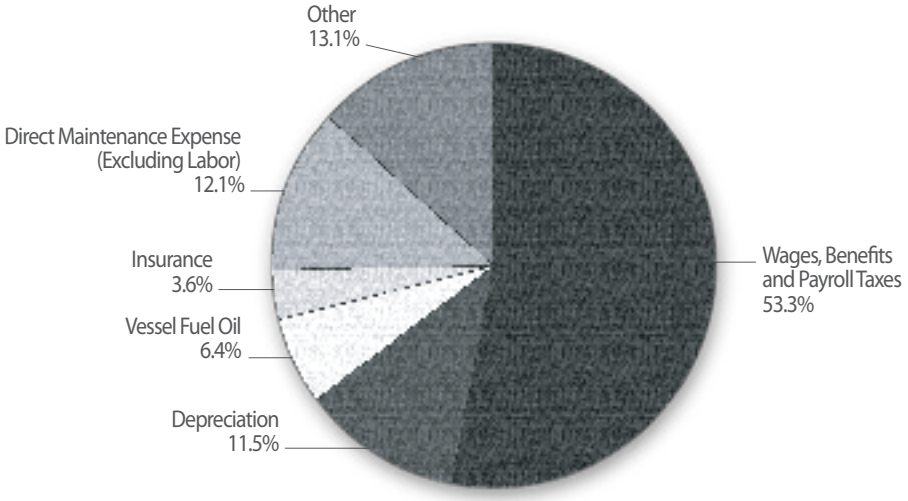
FINANCIAL ANALYSIS...continued
Operating Expenses...continued

Expenses related to the Operation of Terminals and Parking Lots increased in 2015 versus 2014 by $431,942, or 4.1%. This increase was primarily attributed to a 1.9% or $161,317 increase in payroll costs; a $90,829 or 59.4% increase in water expenses; and a $50,598 or 21.8% increase in gas and electric costs.

Expenses to operate Reservations and Customer Service increased in 2015 versus 2014 by $241,678, or 9.2%. This increase was primarily attributed to higher payroll expense of $152,956 or 13.2% along with a $66,063 or 5.9% increase in advertising expense and other traffic expense.

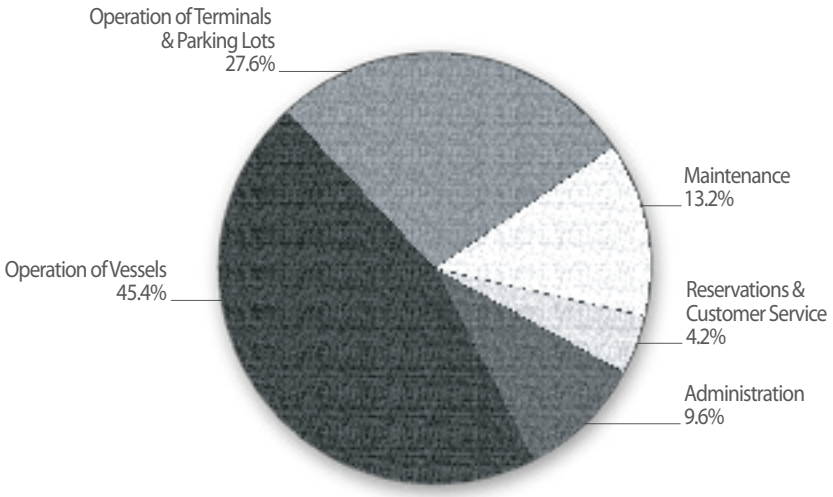
General and administration expense, which includes insurance, payroll taxes, rents, pension and health care costs, increased by $1,326,852 in 2015, or 5.2% versus 2014. Increases in pension expense of $1,189,219 or 26.2%; credit card processing fees of $185,088 or 10.8%; and unemployment contributions of $31,784 or 4.1% were partially offset by decreases of $615,036 or 8.7% in health care expense and $8,831 or 0.3% in payroll expense.

The major sources of operating expenses for the year ended December 31, 2015, were as follows:



FINANCIAL ANALYSIS...continued
Operating Expenses...continued

53.3% of the Authority's operating expenses in 2015 were attributed to wages and the cost of employee benefits. The Authority's payroll in 2015 was distributed to the following functions:



Special-Purpose Restricted Funds and Fund Transfers in 2016

The Authority's Enabling Act requires revenue derived from its operation to be set aside each month in a specific order and in amounts as follows:

(1) to the Operations Fund, an amount sufficient to pay the cost of maintenance, repair, and operation of the Steamship Line for the current month and the next ensuing month, and to maintain working capital for such purposes in an amount not exceeding one thirty-sixth of the operating budget for the then-current fiscal year;

(2) to the Sinking Fund, an amount sufficient to provide for the payment of the interest on and for the amortization and payment of the principal of all bonds as the same shall become due and payable;

(3) to the Property Replacement Fund, such amount as the Authority may deem necessary or advisable for depreciation of property and for obsolescence and losses in respect to property sold, destroyed, or abandoned, and for improvements to, and acquisitions of, real and personal property (the Authority's current policy is to limit any transfers to the Property Replacement Fund in any given year to the amount of the prior year's depreciation expense);

(4) to the Reserve Fund, an amount sufficient to maintain the fund at a level equal to the greater of 5% of the principal amount of all bonds outstanding, exclusive of bonds considered as defeased, or $600,000, whichever is greater; and

(5) to the Bond Redemption Fund, all of the remaining revenue to be used within a reasonable time for the purchase or redemption of bonds or, in the Authority's discretion, to be transferred to the Property Replacement Fund or to the Capital Improvement Fund to be used for any purposes for which bonds may be issued.

FINANCIAL ANALYSIS...continued
Special-Purpose Restricted Funds and Fund Transfers in 2016...continued

The Authority's Sinking Fund balance at December 31, 2016, was $7,249,157, including income from investments of $39,159 during 2016. The Authority's cash flow during 2016 allowed for transfers to be made to the Sinking Fund to meet the scheduled bond interest payment of $1,424,500 on September 1, 2016, and to provide for the payment of bond interest and principal due on March 1, 2017, in the amount of $1,424,500 and $5,805,000, respectively.

In addition, $10,161,805 was transferred from the Operations Fund to the Property Replacement Fund, an increase of $22,028 over the previous year's transfers. Disbursements from the Property Replacement Fund in 2016, totaling $4,075,612, were comprised of the following:

Thomas Landers Road parking facility development	$ 1,147,695
Shuttle buses (6), maintenance vehicles (2) and utility vehicles (7)	1,005,222
Design and engineering for the *M/V Martha's Vineyard* mid-life refurbishment	395,678
Design and engineering of the *M/V Woods Hole*	314,291
Fairhaven maintenance facility shop building	299,389
Rescue boats (11)	266,200
Parking lot access and control equipment	202,234
Wireless boarding and handheld scanning equipment	117,868
Network security, spam and web authentication upgrades	116,974
Palmer Avenue parking lot re-development – phase III	110,113
Other miscellaneous projects under $50,000, individually	99,948

At December 31, 2016, the Property Replacement Fund balance was $17,200,325, including income earned from investments of $96,031 during 2016.

FINANCIAL ANALYSIS...continued
Special-Purpose Restricted Funds and Fund Transfers in 2016...continued

The Authority's Reserve Fund balance at December 31, 2016, was $3,315,500, including income from investments of $23,697 during 2016. $302,947 was transferred from the Reserve Fund to the Bond Redemption Fund during 2016.

The Bond Redemption Fund balance was $14,519,306 at December 31, 2016, including income from investments of $74,475 during 2016. $4,051,279 was transferred from the Operations Fund to the Bond Redemption Fund during 2016. In addition, $302,947 was transferred from the Reserve Fund to the Bond Redemption Fund.

The Authority's Capital Improvement Fund balance as of December 31, 2016, was $1,647,959, including income from investments of $45,334. During 2016, disbursements from the Capital Improvement Fund totaled $17,516,786. Fund disbursements in 2016 were for the construction of the *M/V Woods Hole*. Unexpended proceeds from Steamship Bonds are reported as assets of the Capital Improvement Fund.

Investment income from the special-purpose restricted funds amounted to $239,538 during 2016, excluding income from investments in the Sinking Fund of $39,159.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's capital assets as of December 31, 2016, amounted to $163,848,715, net of accumulated depreciation. The Authority's investment in capital assets includes vessels, buildings and structures, office and terminal equipment, motor vehicles, land, leasehold improvements, and construction projects in progress. During 2016, the Authority invested $1,777,103 in various capital assets and an additional $22,147,083 was invested in construction projects in progress. Capital asset additions were funded through the Authority's operations funds and special-purpose restricted funds.

More detailed information regarding the Authority's capital assets activities for 2016 can be found in the notes to the financial statements (Note 2).

Debt Administration

The Authority is currently authorized under the provisions of the Enabling Act, as amended, to issue bonds in an amount not to exceed $100,000,000 outstanding at any one time. The Authority's Enabling Act further provides that if at any time any principal or interest is due or about to become due on the Authority's bonds and the funds to pay the same are not available, the Authority shall certify to the State Treasurer the amount required to meet such obligations and the Commonwealth shall pay over to the Authority the amount so certified. In the opinion of the Authority's bond counsel, the obligation of the Commonwealth of Massachusetts (the "Commonwealth") to pay the required amount to the Authority is a general obligation of the Commonwealth and the full faith and credit of the Commonwealth is pledged to make such payment. The Commonwealth has never been called upon to make payments to the Authority to meet such obligations under the provisions of the Enabling Act.

CAPITAL ASSETS AND DEBT ADMINISTRATION...continued
Debt Administration...continued

The Authority made scheduled principal payments of $5,585,000 during 2016. In 2015, the Authority made scheduled principal payments of $5,740,000. The total amount of bonds outstanding, net of unamortized premiums of $7,145,146, was $66,310,000 as of December 31, 2016.

More detailed information regarding the Authority's debt administration activities for 2016 can be found in the notes to the financial statements (Note 3).

ECONOMIC FACTORS

The Authority's traffic statistics for the past five years are as follows:

	2012	2013	2014	2015	2016
Passengers	2,802,980	2,846,691	2,893,851	3,023,090	3,127,304
Automobiles	449,850	452,286	457,682	465,297	482,699
Trucks	153,757	162,148	166,577	172,861	182,099
Cars parked	169,513	169,616	172,499	183,526	190,026
Trips made	21,641	22,050	22,107	22,437	22,703
Nautical Miles	319,428	326,968	327,292	333,034	337,560

Demand for the Authority's services is mainly affected by the overall economic activity on Martha's Vineyard and Nantucket, both seasonally and year-round. The economic activity is a reflection of the overall construction on the islands and other factors, such as weather-related conditions, capacity constraints, and operational limitations, which can also have an impact on the Authority's annual ridership volumes.

REQUESTS FOR INFORMATION

This report is intended to provide an overview of the Authority's financial condition. Questions concerning any of the information in this report or requests for additional information should be addressed to the Authority's Treasurer/Comptroller, P.O. Box 284, Woods Hole, MA 02543.

Statements of Net Position
December 31, 2016 and 2015

ASSETS	2016	2015
CURRENT ASSETS:		
Cash and cash equivalents	$ 13,254,046	$ 16,086,739
Receivables, net	1,456,462	1,343,611
Grants receivable	343,199	343,908
Inventories	565,320	527,261
Prepaid insurance and other	2,408,547	2,608,761
Prepaid fuel hedge	601,848	449,773
TOTAL CURRENT ASSETS	**18,629,422**	21,360,053
SPECIAL-PURPOSE RESTRICTED FUNDS:		
Cash and cash equivalents:		
Sinking fund:		
Current bond maturities and interest	7,249,157	7,131,492
Redemption of bonds	14,519,306	10,090,605
Property replacement fund	17,200,325	11,018,100
Reserve fund	3,315,500	3,594,750
Capital improvement fund	1,647,959	19,119,411
TOTAL SPECIAL-PURPOSE RESTRICTED FUNDS	**43,932,247**	50,954,358
CAPITAL ASSETS:		
Vessels	117,887,695	117,669,895
Terminal buildings and equipment	112,563,936	102,036,273
Land and land improvements	28,591,269	28,591,269
Construction in progress	47,210,079	35,350,994
Less - accumulated depreciation	(142,404,264)	(132,934,934)
TOTAL CAPITAL ASSETS, NET	**163,848,715**	150,713,497
TOTAL ASSETS	**226,410,384**	223,027,908
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflow on pensions	4,953,909	3,191,908
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**4,953,909**	3,191,908
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 231,364,293**	$ 226,219,816

See notes to financial statements.

Statements of Net Position
December 31, 2016 and 2015

LIABILITIES AND NET POSITION	2016	2015
CURRENT LIABILITIES:		
Accounts payable	$ 4,452,006	$ 6,105,143
Accrued wages, vacation pay and expenses	4,274,802	3,818,644
Unearned revenue	4,116,731	3,790,083
Pension withdrawal obligation	481,611	463,635
TOTAL CURRENT LIABILITIES	**13,325,150**	14,177,505
LIABILITIES PAYABLE FROM SPECIAL-PURPOSE RESTRICTED FUNDS:		
Accrued interest on Steamship Bonds	960,160	1,030,632
Current portion of long-term debt	5,805,000	5,585,000
TOTAL LIABILITIES PAYABLE FROM SPECIAL-PURPOSE RESTRICTED FUNDS	**6,765,160**	6,615,632
NONCURRENT LIABILITIES:		
Long-term debt, net of current portion	67,650,146	74,389,027
Net pension liabilities	12,664,394	10,765,706
Other postemployment benefits	1,063,267	1,040,081
Pension withdrawal obligations	13,343,618	13,825,229
TOTAL NONCURRENT LIABILITIES	**94,721,425**	100,020,043
TOTAL LIABILITIES	**114,811,735**	120,813,180
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflow from advance refunding	399,190	493,117
Deferred inflow on pensions	839,620	-
TOTAL DEFERRED INFLOWS OF RESOURCES	**1,238,810**	493,117
NET POSITION:		
Net investment in capital assets	91,642,338	89,365,765
Restricted	41,324,128	30,804,314
Unrestricted (Deficit)	(17,652,718)	(15,256,560)
TOTAL NET POSITION	**115,313,748**	104,913,519
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	**$ 231,364,293**	$ 226,219,816

See notes to financial statements.

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES:		
Passenger	$ 33,232,039	$ 32,285,844
Automobile	30,181,713	29,367,504
Freight	27,149,383	25,886,305
Parking	7,398,054	6,939,594
Other	5,934,950	5,577,540
TOTAL OPERATING REVENUES	**103,896,139**	100,056,787
OPERATING EXPENSES:		
Operation of vessels	20,861,303	20,740,686
Operation of terminals and parking lots	11,207,300	10,847,283
Maintenance	18,880,257	17,051,324
Reservations, advertising, and other traffic	3,166,465	2,860,357
Depreciation and amortization	10,689,754	10,161,805
General and administrative	28,946,376	26,652,168
TOTAL OPERATING EXPENSES	**93,751,455**	88,313,623
OPERATING INCOME	**10,144,684**	11,743,164
NONOPERATING (EXPENSES) REVENUES:		
Interest on bonds and other obligations	(2,687,224)	(2,357,137)
Miscellaneous revenue	2,616,813	2,206,799
Miscellaneous expense	(118,851)	(289,955)
TOTAL NONOPERATING (EXPENSES) REVENUES	**(189,262)**	(440,293)
Income before capital grants and contributions and income from special-purpose restricted funds	9,955,422	11,302,871
Capital grants and contributions	205,270	1,247,901
Income from special-purpose restricted funds	239,537	95,234
CHANGE IN NET POSITION	**10,400,229**	12,646,006
NET POSITION, Beginning of year	**104,913,519**	92,267,513
NET POSITION, End of year	**$115,313,748**	$ 104,913,519

See notes to financial statements.

Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments from customers	$ 104,140,017	$ 101,076,983
Payments to employees for services	(32,739,135)	(31,063,295)
Payments to suppliers and contractors	(51,133,512)	(43,842,272)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**20,267,370**	26,171,416
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Principal payments on withdrawal obligations	(463,635)	(446,330)
Receipts from other funds and license activities	1,386,781	1,200,195
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**923,146**	753,865
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on Steamship Bonds	(5,585,000)	(5,740,000)
Proceeds from capital debt	-	38,562,698
Interest paid	(2,221,331)	(874,692)
Interest paid on withdrawal liability	(536,365)	(553,670)
Proceeds from sales of capital assets	125,278	-
Capital expenditures	(23,298,990)	(33,197,105)
Capital grant received	205,979	1,076,630
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(31,310,429)**	(726,139)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	25,572	15,318
Interest from special-purpose restricted funds	239,537	95,234
NET CASH PROVIDED BY INVESTING ACTIVITIES	**265,109**	110,552
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(9,854,804)**	26,309,694
CASH AND CASH EQUIVALENTS, Beginning of year	**67,041,097**	40,731,403
CASH AND CASH EQUIVALENTS, End of year	**$ 57,186,293**	$ 67,041,097
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 10,144,684	$ 11,743,164
Depreciation and amortization	10,689,754	10,161,805
Changes in assets and liabilities:		
Receivables	(81,114)	69,162
Inventories	(38,059)	127,252
Prepaid insurance and other and prepaid fuel hedge	48,140	92,899
Accounts payable	(2,278,333)	2,052,013
Accrued wages, vacation pay, and expenses	456,158	248,683
Other postemployment benefits	23,186	75,095
Net pension obligations	976,307	650,309
Unearned revenue	326,647	951,034
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 20,267,370**	$ 26,171,416

Supplemental disclosure of noncash transactions:

At December 31, 2016 and 2015, the Authority had capital expenditures in the amount of $820,492 and $195,295, respectively, that were included in accounts payable.

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Authority") is a public instrumentality created by the legislature of the Commonwealth of Massachusetts under Chapter 701 of the Acts of 1960, as amended (the "Act"). The Authority has no stockholders or equity holders.

Measurement Focus, Basis of Accounting, and Financial Reporting Presentation

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) codification section 2100 is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under these standards, the Authority is defined as a special-purpose governmental entity engaged only in business-type activities.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized at the time transportation, parking, and other services are provided. Unearned revenue represents cash received in advance of future service.

Deferred Inflows/Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period, and as such will not be recognized as an outflow of resources (expense) until that time. These items are reported as a category below the assets on the Statements of Net Position.

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and as such will not be recognized as an inflow of resources (revenue) until that time. These items are reported as a category below the liabilities on the Statements of Net Position.

The Authority has the following items that qualify for reporting as deferred outflows of resources or deferred inflows of resources:

- For current refundings, resulting in defeasance of debt reported by business-type activities, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or new debt, whichever is shorter. The Authority reports its gain or loss on advance refundings within these categories.
- For amounts not recognized in pension expense due to difference between the measurement date and the fiscal year end date are noted as deferred inflows and/or outflows from pensions.

Net Position

Net position represents the residual interest in the Authority's assets plus deferred outflows of resources, less liabilities and deferred inflows of resources and consists of: (1) net investment in capital assets, (2) amounts restricted, and (3) amounts that are unrestricted. Net investment in capital assets consists of capital assets reduced by accumulated depreciation, deferred inflow due to advance refunding, and by any outstanding debt incurred to acquire, construct or improve those assets, excluding unexpended proceeds. Net position is reported as restricted when there are third party limitations (statutory, contractual or bond covenant) on its use. Unrestricted net position consists of all net position that does not meet the definition of either of the other two components.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Transfers and Use of Funds

The Act and the provisions of the Bond Resolutions with the Authority's bondholders govern the disposition of revenue and prescribe certain accounting practices of the Authority, which include the conditions for transfers between the various accounts and the use of such funds. The Act was amended in 1985 to increase the maximum amount of funds allowed in the Operations Fund and Reserve Fund.

Cash and Cash Equivalents

Cash includes cash on hand, amounts in demand deposits and cash equivalents, which are short-term, highly liquid securities with readily determinable market values. For purposes of the accompanying statements of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

The Authority's investments are reported at fair value using quoted market price or the best available estimate thereof. GASB Statement No. 72, *Fair Value Measurement and Application,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value GAAP hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statements of revenues, expenses and changes in net position. The Authority's investments in 2016 and 2015 qualified to be reported as cash equivalents as the Authority participates in a qualifying external investment pool that measures all of its investments at amortized cost for financial reporting purposes.

Inventories

Materials and supplies are stated at cost on a first-in, first-out basis.

Capital Assets

Vessels, terminal property, and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated service lives of the related assets. The Authority's capitalization threshold for a single item is $5,000 or $10,000 for a group of items. The estimated service lives are as follows:

Vessels	10–30 years
Buildings and structures:	
Buildings and wharves	30 years
Sheds, fences and pavement	10–20 years
Office and terminal equipment:	
Computer equipment	3–5 years
Other	10 years
Motor vehicles	5 years
Leasehold improvements	Shorter of remaining term of lease or estimated useful life

The Authority capitalizes interest costs incurred in the construction of certain qualifying assets. For the years ended December 31, 2016 and 2015, the Authority incurred interest expense from operations of $2,687,224 and $2,357,137, respectively. Capitalized interest was $701,511 and $1,042,132 in 2016 and 2015, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The Authority fully reserves for all receivables greater than 90 days. The allowance for doubtful accounts was $50,000 as of December 31, 2016 and 2015.

Unamortized Bond Premiums and Discounts

Discounts of bonds and premiums on bonds are amortized using the straight-line method over the life of the related bond issue since the results are not significantly different from the effective interest method of amortization.

Risk Financing and Related Insurance Issues

The Authority is self-insured with respect to medical benefits provided to certain employees and retirees. With respect to these medical benefits, the Authority purchases stop-loss insurance, which covers all incurred claims in excess of approximately $2,100,000 in the aggregate; up to a maximum aggregate benefit payment of $1,000,000 per person per year. The Authority purchases commercial insurance to cover all other risks of loss. During the current and previous three years, there have been no settlements in excess of insurance coverage maintained by the Authority.

Accrued Sick Leave and Vacation

Employees are granted sick leave and vacation in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick leave and vacation (subject to certain limitations) at their then-current rates of pay. The accumulated amount of sick and vacation leave is recorded as an expense and liability as the benefits accrue to employees.

Operating Revenues and Expenses

The Authority distinguishes operating revenues and expenses from nonoperating revenues and expenses in its statement of revenues, expenses and changes in net position. Operating revenues consists of those revenues earned from customers for passage of vehicles and passengers, from parking operations and ancillary activities such as concessions and driver services.

Operating expenses relate to the cost of providing those services and also include administration expenses and depreciation of capital assets. All other revenues and expenses that are not a direct result of the Authority's functions are considered nonoperating. Examples of nonoperating items include investment earnings, interest expense, gains and losses on the disposal of capital assets and licensing fees.

Unearned Revenue

Unearned revenue consists primarily of fares received from customers for future reservations. Such amounts are recognized as revenue in subsequent periods as they are earned.

Reclassifications

Certain 2015 amounts have been reclassified to conform to 2016 presentation without any effect on net income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant use of estimates includes the accrual for claims to be submitted under the Authority's self-funded health insurance and the allowance for uncollectible accounts.

Adoption of New Accounting Pronouncements

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. The Statement clarifies the application of certain provisions of Statements No. 67 and No. 68. The Authority implemented this statement during fiscal year 2016. The adoption of this standard did not have a material impact on the Authority's financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement improves financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. The Authority implemented this statement during fiscal year 2016. The adoption of this standard did not have a material impact on the Authority's financial statements.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The Authority implemented this statement during fiscal year 2016. The adoption of this standard did not have an impact on the Authority's financial statements.

In December 2015, the GASB issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. The Authority implemented this statement during fiscal year 2016. The adoption of this standard did not have a material impact on the Authority's financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

The GASB has issued the following statements, which require adoption subsequent to December 31, 2016, and are applicable to the Authority. The Authority has not yet adopted these statements, and the implications on the fiscal practices and financial reports are being evaluated.

GASB STATEMENT NO.		ADOPTION REQUIRED IN FISCAL YEAR
74	*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*	2017
75	*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*	2018
80	*Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*	2017
81	*Irrevocable Split-Interest Agreements*	2017
82	*Pension Issues—an Amendment of GASB Statements No. 67, No. 68, and No. 73*	2017
83	*Certain Asset Retirement Obligations*	2019
84	*Fiduciary Activities*	2019
85	*Omnibus 2017*	2018

2. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital assets, not being depreciated:				
Land	$ 27,112,044	$ -	$ -	$ 27,112,044
Construction in progress	35,350,994	22,147,083	(10,287,998)	47,210,079
Total capital assets, not being depreciated	62,463,038	22,147,083	(10,287,998)	74,322,123
Capital assets, being depreciated:				
Vessels	117,669,895	217,800	-	117,887,695
Buildings and structures	85,751,450	-	9,449,103	95,200,553
Office and terminal equipment	11,683,832	911,309	181,728	12,776,869
Motor vehicles	4,600,991	647,994	(662,471)	4,586,514
Leasehold improvements	1,479,225	-	-	1,479,225
Total capital assets, being depreciated	221,185,393	1,777,103	8,968,360	231,930,856
Less accumulated depreciation for:				
Vessels	(75,863,172)	(5,710,243)	-	(81,573,415)
Buildings and structures	(43,690,402)	(3,517,321)	412,517	(46,795,206)
Office and terminal equipment	(9,370,421)	(1,046,315)	145,437	(10,271,299)
Motor vehicles	(2,531,714)	(415,876)	662,471	(2,285,119)
Leasehold improvements	(1,479,225)	-	-	(1,479,225)
Total accumulated depreciation	(132,934,934)	(10,689,755)	1,220,425	(142,404,264)
Total capital assets, being depreciated, net	88,250,459	(8,912,652)	10,188,785	89,526,592
Total capital assets, net	**$ 150,713,497**	**$ 13,234,431**	**$ (99,213)**	**$ 163,848,715**

Capital asset activity for the year ended December 31, 2015, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital assets, not being depreciated:				
Land	$ 27,112,044	$ -	$ -	$ 27,112,044
Construction in progress	8,828,230	30,655,056	(4,132,292)	35,350,994
Total capital assets, not being depreciated	35,940,274	30,655,056	(4,132,292)	62,463,038
Capital assets, being depreciated:				
Vessels	117,382,923	286,972	-	117,669,895
Buildings and structures	81,934,256	-	3,817,194	85,751,450
Office and terminal equipment	10,402,485	1,001,249	280,098	11,683,832
Motor vehicles	4,097,295	503,696	-	4,600,991
Leasehold improvements	1,479,225	-	-	1,479,225
Total capital assets, being depreciated	215,296,184	1,791,917	4,097,292	221,185,393
Less accumulated depreciation for:				
Vessels	(70,424,778)	(5,438,394)	-	(75,863,172)
Buildings and structures	(40,447,649)	(3,277,753)	35,000	(43,690,402)
Office and terminal equipment	(8,276,176)	(1,094,245)	-	(9,370,421)
Motor vehicles	(2,180,301)	(351,413)	-	(2,531,714)
Leasehold improvements	(1,479,225)	-	-	(1,479,225)
Total accumulated depreciation	(122,808,129)	(10,161,805)	35,000	(132,934,934)
Total capital assets, being depreciated, net	92,488,055	(8,369,888)	4,132,292	88,250,459
Total capital assets, net	**$ 128,428,329**	**$ 22,285,168**	**$ -**	**$ 150,713,497**

3. STEAMSHIP BONDS OUTSTANDING

The Steamship Bonds outstanding at December 31, are as follows:

	2016	2015
2005 Series A, including unamortized bond premium of $0 and $9,910 at December 31, 2016 and 2015, respectively, bearing interest at rates ranging from 2.95% to 5.00%, requiring annual payments of principal beginning March 1, 2008 and semiannual interest payments through March 1, 2016	$ -	$ 1,509,910
2009 Series A, including unamortized bond premium of $79,311 and $98,346 at December 31, 2016 and 2015, respectively, bearing interest at rates ranging from 2.50% to 4.00%, requiring annual payments of principal beginning March 1, 2011 and semiannual interest payments through March 1, 2021	2,904,311	3,393,346
2009 Series B, including unamortized bond premium of $82,422 and $89,196 at December 31, 2016 and 2015, respectively, bearing interest at rates ranging from 2.00% to 4.00%, requiring annual payments of principal beginning March 1, 2011 and semiannual interest payments through March 1, 2029	7,687,422	8,134,196
2011 Series A, including unamortized bond premium of $136,984 and $179,134 at December 31, 2016 and 2015, respectively, bearing interest at rates ranging from 2.00% to 3.00%, requiring annual payments of principal beginning March 1, 2017 and semiannual interest payments through March 1, 2020	6,136,984	6,179,134
2014 Series A, including unamortized bond premium of $1,876,147 and $2,326,422 at December 31, 2016 and 2015, respectively, bearing interest at rates ranging from 4.00% to 5.00%, requiring annual payments of principal beginning March 1, 2016 and semiannual interest payments through March 1, 2021	18,806,147	22,431,422
2015 Series A, including unamortized bond premium of $4,970,282 and $5,376,019 at December 31, 2016 and 2015, respectively, bearing interest at rates ranging from 3.00% to 5.00%, requiring annual payments of principal beginning March 1, 2021 and semiannual interest payments through March 1, 2029	37,920,282	38,326,019
Total Steamship Bonds	**73,455,146**	79,974,027
Less bonds due within one year	**(5,805,000)**	(5,585,000)
Total Steamship Bonds—excluding current portion	**$ 67,650,146**	$ 74,389,027

3. STEAMSHIP BONDS OUTSTANDING...continued

2005 Series A Steamship Bonds — On October 6, 2005, the Authority issued $9,380,000 of 2005 Series A Steamship Bonds with interest rates ranging from 2.95% to 5.00%. The proceeds were used for the following purposes: (i) for the design, construction, and delivery of a new high-speed passenger-only vessel, the *M/V Iyanough*, with a capacity of approximately 350 passengers; and (ii) to pay the cost of issuance.

2009 Series A Steamship Bonds — On July 21, 2009, the Authority issued $5,000,000 of 2009 Series A Steamship Bonds with interest rates ranging from 2.50% to 4.00%. The proceeds of the bonds were used to refund $5,000,000 in bond anticipation notes, the proceeds of which were used: (i) for the reconstruction and refurbishment of the *M/V Nantucket*, including without limitation the reconstruction of the deck, the reconstruction of the bridge, and the refurbishment of the vessel's seating and eating areas; and (ii) to pay the cost of issuance.

2009 Series B Steamship Bonds — On December 1, 2009, the Authority issued $10,000,000 of 2009 Series B Steamship Bonds with interest rates ranging from 2.00% to 4.00%. The proceeds were used for the following purposes: (i) to acquire four (4) parcels of land located in Falmouth, Massachusetts, for parking and other purposes ("Project A"); (ii) the reconstruction of vessel berthing slips in Hyannis, Massachusetts, for operational efficiency purposes, including without limitation the reconstruction of dolphins, wharves, and transfer bridge and gangways ("Project B" and together with Project A, the "Projects"); and (iii) to pay the cost of issuance.

2011 Series A Steamship Bonds — On December 13, 2011, the Authority issued $6,000,000 of 2011 Series A Steamship Bonds with interest rates ranging from 2.00% to 3.00%. The proceeds of the bonds were used for: (i) the reconstruction and refurbishment of the *M/V Eagle*, including without limitation the replacement of decking, doors and windows; the reconstruction of the snack bar; refurbishment of the vessel's seating and eating areas and the installation of a marine evacuation slide; and (ii) to pay the cost of issuance.

2014 Series A Steamship Bonds — On December 2, 2014, the Authority issued $20,105,000 of 2014 Series A Steamship Bonds with interest rates ranging from 4.00% to 5.00%. The proceeds of the bonds were used to: (i) refund $22,765,000 of the Authority's 2004 Series B Bonds maturing in the years 2016 through 2021; and (ii) to pay the cost of issuance. The portion of the bond proceeds used to refund the prior bond obligations was used to purchase U.S. Government obligations, which were deposited into an irrevocable trust to pay the scheduled principal and interest on the 2004 Series B Steamship Bonds. As a result, these bonds are considered defeased by the Authority. Accordingly, the trust account assets and the liability for the defeased bonds have not been included in the Authority's financial statements. Prior refunded obligations outstanding at December 31, 2016 and 2015, totaled $19,195,000 and $22,765,000, respectively.

2015 Series A Steamship Bonds — On May 8, 2015, the Authority issued $32,950,000 of 2015 Series A Steamship Bonds with interest rates ranging from 3.00% to 5.00%. The proceeds of the bonds were used to: (i) construct a new 235-foot passenger and vehicle vessel, the *M/V Woods Hole*, with a capacity of approximately 384 passengers and 50 cars, to replace the Authority's *M/V Governor*; and (ii) to pay the cost of issuance.

3. STEAMSHIP BONDS OUTSTANDING...continued

Scheduled Debt Service Requirements

The annual scheduled debt service requirements of all Steamship Bonds outstanding at December 31, 2016, are as follows, exclusive of bonds defeased:

YEARS ENDING DECEMBER 31	PRINCIPAL PAYMENTS	INTEREST PAYMENTS	TOTAL PAYMENTS
2017	$ 5,805,000	$ 2,736,325	$ 8,541,325
2018	6,010,000	2,506,400	8,516,400
2019	6,225,000	2,256,550	8,481,550
2020	6,455,000	1,985,406	8,440,406
2021	6,170,000	1,699,469	7,869,469
2022–2026	20,765,000	5,363,788	26,128,788
2027–2031	14,880,000	797,550	15,677,550
TOTAL	**$ 66,310,000**	**$ 17,345,488**	**$ 83,655,488**

Principal payments reported above are exclusive of the deferred gain arising from prior bond defeasances of $399,190 and unamortized bond premium of $7,145,146.

Long-term liabilities activity for the year ended December 31, 2016, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	DUE WITHIN ONE YEAR
Bonds payable:					
Steamship Bonds	$ 71,895,000	$ -	$ (5,585,000)	$ 66,310,000	$ 5,805,000
Issuance premiums	8,079,027	-	(933,881)	7,145,146	-
Sub-total bonds payable	79,974,027	-	(6,518,881)	73,455,146	5,805,000
Other long-term liabilities:					
Net pension liability	10,765,706	2,738,308	(839,620)	12,664,394	-
Net OPEB obligations	1,040,081	173,189	(150,003)	1,063,267	-
Pension Withdrawal Obligations	14,288,864	-	(463,635)	13,825,229	481,611
Sub-total other long-term liabilities	26,094,651	2,911,497	(1,453,258)	27,552,890	481,611
Total Long-term Liabilities	**$ 106,068,678**	**$ 2,911,497**	**$ (7,972,139)**	**$ 101,008,036**	**$ 6,286,611**

3. STEAMSHIP BONDS OUTSTANDING...continued

Long-term liabilities activity for the year ended December 31, 2015, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	DUE WITHIN ONE YEAR
Bonds payable:					
Steamship Bonds	$ 44,685,000	$ 32,950,000	$ (5,740,000)	$ 71,895,000	$ 5,585,000
Issuance premiums	3,285,649	5,612,698	(819,320)	8,079,027	-
Sub-total bonds payable	47,970,649	38,562,698	(6,559,320)	79,974,027	5,585,000
Other long-term liabilities:					
Net pension liability	7,712,582	3,842,217	(789,093)	10,765,706	-
Net OPEB obligations	964,986	199,332	(124,237)	1,040,081	-
Pension Withdrawal Obligations	14,735,194	-	(446,330)	14,288,864	463,635
Sub-total other long-term liabilities	23,412,762	4,041,549	(1,359,660)	26,094,651	463,635
Total Long-term Liabilities	**$ 71,383,411**	**$ 42,604,247**	**$ (7,918,980)**	**$ 106,068,678**	**$ 6,048,635**

4. LEASE COMMITMENTS

Operating Leases — The Authority has several noncancelable operating lease commitments at December 31, 2016, with terms in excess of one year. Future minimum lease payments under operating leases are as follows:

YEARS ENDING DECEMBER 31	
2017	$ 537,761
2018	537,761
2019	387,376
2020	131,588
2021	131,588
2022–2026	251,958
TOTAL	**$ 1,978,032**

Aggregate rental expense for the years ended December 31, 2016 and 2015, was $877,107 and $1,090,205, respectively.

5. DEPOSITS AND INVESTMENTS

The Steamship Authority's Board has the sole responsibility for establishing and revising investment policy. In June 2003, the Authority adopted a formal investment policy for all of its operations funds and special-purpose restricted funds. In March 2015, the Steamship Authority's Board reaffirmed the investment policy. The investment strategy is to invest substantially in short-term securities. Permitted investments will consist of obligations issued or secured by the U.S. Government or agencies of the U.S. Government and overnight repurchasing agreements with banks or in mutual funds composed of the above types of investments. The Authority can also invest in the Massachusetts Municipal Depository Trust (MMDT), a pooled money-market-like investment fund managed by the Commonwealth of Massachusetts and established under Massachusetts General Laws, Chapter 29, Section 38A.

Investment options, which are offered by the MMDT include a cash portfolio which offers participation in a diversified portfolio of high-quality money-market instruments that seek the highest possible level of current income consistent with preservation of capital and liquidity and a Short-Term Bond Portfolio which offers participation in a diversified portfolio of investment- grade, short-term, fixed-income securities that seeks to generate performance exceeding the Barclays 1-5 Year Government/Credit Bond Index, presenting a fixed-income alternative with a longer time horizon than the cash portfolio. A participant's holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. Amounts held at MMDT are uninsured and uncollateralized. The Authority's investment balance with MMDT as of December 31, 2016 and 2015 were solely in the cash portfolio. The cash portfolio is not registered with the Securities and Exchange Commission as an investment company, but maintains a policy to operate in a manner as a qualifying external investment pool as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The cash portfolio adheres to GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which amends Statement No. 31 and establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. At December 31, 2016 and 2015 the Authority's deposits with MMDT totaled $46,463,452 and $53,470,128, respectively. A copy of the financial statements of MMDT can be obtained from the Office of the State Treasurer, 1 Ashburton Place, Boston, MA 02110.

Cash and Cash Equivalents

The total amount of the Authority's cash and cash equivalents at December 31, respectively, are as follows:

	2016	2015
Cash, including trust and custody agreements	$ 10,722,841	$ 13,570,969
MMDT	46,463,452	53,470,128
TOTAL	**$ 57,186,293**	$ 67,041,097

5. DEPOSITS AND INVESTMENTS...continued

Custodial Credit Risk

Custodial credit risk exists for cash deposits when, in the event of a failure of a depository financial institution, the Authority's deposits may not be recovered. The Authority does not have a formal policy with regard to custodial credit risk but generally invests in securities or financial institutions which have either short-term rating of "A" or government securities of "AAA." Bank deposits are Federal Depository Insurance Corporation (FDIC) or Massachusetts Depositors Insurance Fund (DIF) insured as of December 31, 2016. Bank trust and custody agreements include Pledged Holdings and Irrevocable Stand-by Letters of Credit issued by the various financial institutions as collateral for the Authority's deposits. The total amounts of Authority deposits in financial institutions, per the bank statements, at December 31, respectively, are as follows:

	2016	2015
Balance per banks	$ 13,885,659	$ 16,888,931
Deposits covered by:		
Federal Deposit Insurance Corporation	(1,000,000)	(951,120)
Massachusetts Depositors Insurance Fund	(949,156)	(1,675,036)
Bank trust and custody agreements	(9,403,377)	(11,746,259)
TOTAL UNINSURED AND UNCOLLATERALIZED DEPOSITS	**$ 2,533,126**	$ 2,516,516

Interest Rate Risk and Credit Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The Authority does not have a formal policy with regard to interest rate risk. The majority of the Authority's investments are in MMDT, a pooled money-market-like investment fund.

Credit risk exists when there is a possibility that the issuer of an investment may be unable to fulfill its obligations. The Authority does have a formal policy with regard to credit risk. It should be noted, however, that the investment portfolio may be no more than 25% invested in securities of a single issuer, except for obligations of the U.S. Government.

5. DEPOSITS AND INVESTMENTS...continued
Interest Rate Risk and Credit Risk...continued

The Authority maintains cash, cash equivalents, and investments available for use by all funds, in the manner provided below, as set forth by the Authority's Enabling Act, as amended.

The revenues derived from the operation of the Steamship Line are set aside in Revenue Funds. Monies in the Revenue Funds on the last day of the preceding month shall be transferred:

- ***To the Operations Fund*** — such amount, if available, as may be required to pay the cost of maintenance, repair, and operation of the Steamship Line for the current month and the next ensuing month and to maintain working capital for such purposes in an amount not to exceed one thirty-sixth of the operating budget for the then-current fiscal year;
- ***To the Sinking Fund*** — such amount, if any, as may be required for the payment of the interest on and the principal of all bonds as the same shall become due and payable;
- ***To the Property Replacement Fund*** — such amount, if any, as may be deemed necessary or advisable for depreciation of property and for obsolescence and losses with respect to property sold, destroyed, or abandoned (the Authority's current policy is to limit any transfers to the Property Replacement Fund in any given year to the amount of the prior year's depreciation expense);
- ***To the Reserve Fund*** — such amount, if any, as may be required to make the balance therein equal to 5% of the principal amount of all outstanding bonds, exclusive of bonds considered as defeased, or $600,000, whichever is greater; and
- ***To the Bond Redemption Fund*** — all of the remaining revenue to be used within a reasonable time for the purchase or redemption of bonds or, in the Authority's discretion, to be transferred to the Property Replacement Fund or to the Capital Improvement Fund to be used for any purposes for which bonds may be issued.

6. PENSION PLANS

The Authority provides retirement benefits to its employees through various defined benefit and defined contribution pension plans.

Defined Benefit Pension Plans Sponsored by the Authority

Description of Plans

Nonunion Plan

The Authority has in effect a single employer, defined benefit pension plan established in 1968 for eligible nonunion employees (the "Nonunion Plan"). The Nonunion plan reporting date is February 28th of each year.

Administration of the Plan

The Nonunion Plan is administered by the Authority. The Trustee, Principal Mutual Life Insurance Company, holds the investment securities of the Nonunion Plan and executes related transactions under custodial agreements with the Nonunion Plan and the Authority. Separate financial statements are not issued for the Nonunion Plan.

6. PENSION PLANS...continued
Defined Benefit Pension Plans Sponsored by the Authority...continued
Nonunion Plan...continued

Participation and Vesting

Employees not under collective bargaining agreements whose customary employment with the Authority is for at least 30 hours per week and are employed or expected to be employed on a year-round basis may participate in the Nonunion Plan.

Participants' benefits become fully vested after five years of service in the Nonunion Plan. Benefit payments are made to participants of the Nonunion Plan or their beneficiaries in varying amounts according to the provisions of the Nonunion Plan.

Plan Amendment and Termination

The Nonunion Plan may be amended or terminated in whole or in part, at any time by the Authority, provided that no such modification, amendment, or termination shall be made that would deprive a current participant of rights or benefits provided under the Nonunion Plan.

Normal Retirement Benefits

The normal form of retirement benefit is a monthly annuity payable for life with payments guaranteed for five years (optional forms of payment may be elected in advance of retirement), commencing on the normal retirement date. The normal retirement date for participants who joined the Nonunion Plan prior to March 1, 1992, is the earliest of (a) attainment of age 65 and completion of 20 years of service, (b) attainment of age 62 and completion of 25 years of service, or (c) attainment of age 60 and completion of 30 years of service. The amount of benefits is equal to 75% of average compensation for the last three years multiplied by an accrued benefit adjustment (as defined in the Nonunion Plan). The normal retirement date for participants who joined the Nonunion Plan on or after March 1, 1992, is the earliest of (a) attainment of age 65 and completion of five years of service, (b) attainment of age 62 and completion of 25 years of service, or (c) attainment of age 60 and completion of 30 years of service. The amount of benefits is equal to 2.5% of average compensation multiplied by years of service (maximum of 30 years). The normal retirement date for participants who join the Nonunion Plan on or after March 1, 2011, is the attainment of age 65 and completion of 10 years of service. The amount of benefits is equal to 2.0% of average compensation multiplied by years of service (maximum of 30 years). Average compensation is defined as average monthly pay received during the three-year period preceding the normal retirement date.

Participants in the Nonunion Plan prior to March 1, 1992, are entitled to a benefit based upon the greater of the benefits allowed under the plan as it existed prior to March 1, 1992 or the benefits allowed to participants who join on or after March 1, 1992.

Employees Covered by Benefit Terms

At February 29, 2016, the following employees were covered by the benefit terms:

Active plan members	77
Inactive plan members entitled to but not yet receiving benefits	27
Retired plan members or beneficiaries currently receiving benefits	32
TOTAL	**136**

6. PENSION PLANS...continued
Defined Benefit Pension Plans Sponsored by the Authority...continued
Nonunion Plan...continued

Cost-of-Living Adjustment

As of March 1, 2002, the Nonunion Plan was amended to include an annual cost of living increase to participants receiving monthly payments under the Nonunion Plan. The cost of living increase is based on half of the percentage increase in the consumer price index from year to year with the aggregate cost of living increase not to exceed 50% of the value of the participant's benefit as of the annuity starting date.

As of March 1, 2011, the Nonunion Plan was amended to exclude an annual cost of living increase to participants receiving monthly payments under the Nonunion Plan who became participants on or after March 1, 2011.

Contributions

Employees who become participants in the Nonunion Plan are currently required to contribute 3.0% of salary. The Authority currently contributes 22.0% of annual covered payroll for the Nonunion Plan. For the Plan years ended February 29, 2016 and February 28, 2015, the Authority contributed $807,637 and $789,093, respectively towards the Nonunion Plan. For the period March 1, 2016 through December 31, 2016 the Authority contributed $1,104,259 towards the Nonunion Plan. These contributions are recorded as deferred outflow on pensions in the Statements of Net Position.

Disability Benefits

There are no disability benefits payable under the Nonunion Plan.

Early Retirement Benefits

Early retirement benefits are in the same form as normal retirement benefits and commence on the early retirement date. The early retirement date must be within the 10-year period preceding the normal retirement date. Benefits are reduced for each year that the early retirement date precedes the normal retirement date.

Investments

Investments are valued as of the measurement date. Investments are in separate accounts held at The Principal Financial Group in commingled pools, rather than individual securities, and are valued at fair market value. Principal Financial Advisors, Inc., a registered investment advisor and wholly owned subsidiary of Principal Financial Group, has been hired to manage the asset allocation strategy for the Nonunion Plan.

The investment strategy is to build an efficient, well-diversified portfolio based on a long-term, strategic outlook of the investment markets. The investment market outlook utilizes both historical-based and forward-looking return forecasts to establish future return expectations for various asset classes. These return expectations are used to develop a core asset allocation based on the needs of the Nonunion Plan. The core asset allocation utilizes investment portfolios of various asset classes and multiple investment managers in order to help maximize the plan's return while providing multiple layers of diversification to help minimize risk.

6. PENSION PLANS...continued
Defined Benefit Pension Plans Sponsored by the Authority...continued
Nonunion Plan...continued

Actuarial Assumptions

VALUATION DATE	ACTUARIAL COST METHOD	ASSET VALUATION METHOD	AMORTIZATION METHOD	AMORTIZATION PERIOD	ASSUMED RATE OF RETURN	INFLATION RATE	SALARY INCREASES
February 29, 2016	Entry Age	Fair Market Value	Level dollar	20-30 years	6.25%	2.25%	S5 + 1.75%
February 28, 2015	Entry Age	Fair Market Value	Level dollar	20-30 years	6.25%	2.25%	S5 + 1.75%
February 28, 2014	Entry Age	Fair Market Value	Level dollar	20-30 years	6.75%	2.25%	S5 + 1.75%

Total mortality rates as of 2007 from SOA RP-2014 study (baseline 2006 table trued up to 2007 with actual improvement rate).

Money-weighted Rate of Return

The money-weighted rate of return is calculated as a rate of return on pension plan investments incorporating the actual timing and amount of cash flows. This return is calculated net of investment expenses. The annual money-weighted rate of return on plan investments for the measurement period of 03/01/2015 to 02/28/2016 is -5.21%.

Expected Rate of Return

The expected long-term return of 6.25% on plan assets assumption was developed as a weighted average rate based on the target asset allocation of the plan and the Long-Term Capital Market Assumptions (CMA) 2014. The capital market assumptions were developed with a primary focus on forward-looking valuation models and market indicators. The key fundamental economic inputs for these models are future inflation, economic growth, and interest rate environment. Due to the long-term nature of the pension obligations, the investment horizon for the CMA 2014 is 20-30 years. In addition to forward-looking models, historical analysis of market data and trends was reflected, as well as the outlook of recognized economists, organizations and consensus CMA from other credible studies.

The plan's target asset allocations, as of February 29, 2016, are summarized in the following table:

ASSET CLASS	TARGET ALLOCATION	EXPECTED ARITHMETIC RETURN	EXPECTED GEOMETRIC RETURN
US Equity – Large Cap	23.50%	8.80%	7.45%
US Equity – Mid Cap	2.64%	9.10%	7.45%
US Equity – Small Cap	2.72%	9.55%	7.45%
Non-US Equity	8.26%	9.20%	7.45%
REITs	0.79%	8.35%	6.55%
Real Estate (direct property)	5.00%	6.30%	5.95%
TIPS	1.18%	4.10%	3.90%
Core Bond	51.56%	4.25%	4.15%
High Yield	4.35%	6.30%	5.90%

6. PENSION PLANS...continued
Defined Benefit Pension Plans Sponsored by the Authority...continued
Nonunion Plan...continued

Changes in the Authority's net pension liabilities for the year ending December 31, 2016 are as follows:

	TOTAL PENSION LIABILITY	PLAN FIDUCIARY NET POSITION	NET PENSION LIABILITY
Balance at December 31, 2015	$ 33,077,455	$ 22,311,749	$ 10,765,706
Changes for the year:			
Service Cost	1,081,252	-	1,081,252
Interest	1,681,088	-	1,681,088
Differences between expected and actual experience	(177,602)	-	(177,602)
Changes in assumptions	(895,895)	-	(895,895)
Contributions - employer	-	807,637	(807,637)
Contributions - employee	-	161,527	(161,527)
Net investment income	-	(1,179,009)	1,179,009
Benefit payments, including refunds of employee contributions	(370,672)	(370,672)	-
Administrative expenses	-	-	-
Net change	1,318,171	(580,517)	1,898,688
BALANCE AT DECEMBER 31, 2016	**$ 34,395,626**	**$ 21,731,232**	**$ 12,664,394**

Statement of Deferred Outflows and Inflows of Resources

As of February 29, 2016 the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual experience	$ 201,643	$ (138,909)
Effects of changes in assumptions	1,481,391	(700,711)
Net difference between expected and net investment income	2,166,616	-
Employer contributions subsequent to the measurement period	1,104,259	-
Total Deferred Outflows and Inflows of Resources	**$ 4,953,909**	**$ (839,620)**

6. PENSION PLANS...continued
Defined Benefit Pension Plans Sponsored by the Authority...continued
Nonunion Plan...continued
Statement of Deferred Outflows and Inflows of Resources...continued

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in the pension expense as follows:

YEAR ENDED DECEMBER 31	AMOUNT TO BE RECOGNIZED
2017	$ 955,481
2018	955,481
2019	718,701
2020	380,367

Discount Rate

The discount rate used to determine the end of period total pension liability is 5.15%.

The plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2016 to 2045.

The long-term rate of return of 6.25% is used to calculate the actuarial present value of projected payments for each future period when the projected fiduciary net position is greater than the projected expected benefit payments. Otherwise, a municipal bond rate of 3.91% is used. The municipal bond rate is from Barclays Municipal GO Long Term (17+ Y) Index, which includes 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the February 29, 2016 measurement date. The discount rate is a single rate that incorporates the long-term rate of return and municipal bond rate as described.

The discount rate used to determine the beginning of period total pension liability is 4.95%. The municipal bond rate as of February 28, 2015 was 4.04%.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability of the Plan as of February 29, 2016, calculated using the discount rate of 5.15%, as well as what the net pension liability would be if it were to be calculated using a discount rate that is one percentage point lower (4.15%) or one percentage point higher (6.15%) than the current rate:

PLAN YEAR ENDED	1% DECREASE (4.15%)	DISCOUNT RATE (5.15%)	1% INCREASE (6.15%)
February 29, 2016	$ 17,512,405	$ 12,664,394	$ 8,607,088

6. PENSION PLANS...continued

Defined Contribution Plans Sponsored by the Authority

Licensed Deck Officers Plan

The Authority also has a defined contribution plan for its licensed deck officers. Prior to July 27, 2013, the Authority was required to contribute an amount equal to 10.75% of base weekly earnings for each employee. Effective July 27, 2013, the Authority was required to contribute an amount equal to 7.50% of base weekly earnings for each employee. The Authority's required and actual contributions aggregated $303,120 and $291,673 for 2016 and 2015, respectively.

Administration of the Plan

The Plan is administered by the Authority. The Trustee, Principal Mutual Life Insurance Company, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting

All licensed deck officers (captains, pilots, and mates) are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

Parking Lot Employees and Shuttle Bus Drivers Plan

The Authority also has a defined contribution plan for its permanent parking lot employees/shuttle bus drivers. The Authority is required to contribute an amount equal to 5.5% of base weekly earnings for each permanent parking lot employee/shuttle bus driver prior to May 27, 2011. Effective May 28, 2011, the Authority is required to contribute an amount equal to 5.0% of base weekly earnings for each permanent parking lot employee/shuttle bus driver. The Authority's required and actual contributions for this plan aggregated $39,702 and $42,712 for 2016 and 2015, respectively.

Administration of the Plan

The Plan is administered by the Authority. The Trustee, Wachovia Securities LLC, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting

All permanent parking lot employees/shuttle bus drivers are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

6. PENSION PLANS...continued
Defined Contribution Plans Sponsored by the Authority...continued

Security Employees Plan

The Authority also has a defined contribution plan for its permanent security employees. The Authority is required to contribute an amount equal to 5.0% of base weekly earnings for each security employee. The Authority's required and actual contributions for this plan aggregated $17,601 and $15,656 for 2016 and 2015, respectively.

Administration of the Plan

The Plan is administered by the Authority. The Trustee, Wachovia Securities LLC, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting

All permanent security employees are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

Unlicensed Vessel Employees Plan

The Authority also has a defined contribution plan for its permanent unlicensed vessel employees. Effective August 23, 2014, the Authority is required to contribute an amount equal to 3.5% of base weekly earnings for each employee. Prior to that, the Authority was required to contribute an amount equal to 10.0% of base weekly earnings for the period April 15, 2000 through August 22, 2014; 9.0% from April 17, 1999 through April 14, 2000; 7.5% from April 18, 1998 through April 16, 1999; and 6.0% through April 17, 1998. The Authority's required and actual contributions aggregate $269,930 and $263,333 for 2016 and 2015, respectively.

Administration of the Plan

The Plan is administered by the Authority. The Trustee, Prudential Trust Company, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting

All permanent unlicensed vessel employees are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

6. PENSION PLANS...continued
Defined Contribution Plans Sponsored by the Authority...continued

Multiemployer - Licensed Engineering Officers Plan

The Authority contributes to a multiemployer defined contribution plan for its licensed engineering officers. The Authority is required to contribute an amount equal to 10.667% of base weekly earnings for each employee on the permanent Chief Engineers roster as of August 1, 2008, and $12.50 per day for each engineering officer not on the permanent Chief Engineers roster as of August 1, 2008. In January 2012, the Authority discontinued contributing to the multiemployer defined contribution plan and instead began contributing to a multiemployer pension plan, administered by the Marine Engineers Beneficial Association Pension Trust at a rate of 11.7% of earnings.

Administration of the Plan

The Plan is administered by the Marine Engineers Beneficial Association Pension Trust, Trustee. The Trustee holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan.

Participation and Vesting

All engineering officers (chief engineers, third assistant engineers) are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

Employer Contributions

In August 2016, the Authority resumed contributions to the plan at a rate of 2.74%. The Authority's required and actual contributions aggregate $28,685 in 2016.

Deferred Compensation Plan

The Authority has a deferred compensation plan, in accordance with Internal Revenue Code Section 457, available to all regular full-time employees. Under the terms of the plan, employees who wish to participate may have contributed up to a maximum of $18,000 in 2016 and $18,000 in 2015 of their annual compensation. A "catch up" contribution for those employees 50 years of age or older is allowed; this amount is limited to an additional $6,000 per year. The Authority did not contribute to the plan in 2016 or 2015.

Multiemployer Pension Plans

The Authority provides benefits to certain of its employees by making contributions to various multiemployer pension plans. Such plans are available to all full-time union employees not covered by the Authority's single employer pension plan, and their eligibility in the plans commences upon employment. There were no outstanding payables under any of the plans for the year ending December 31, 2016. The schedule of employer contributions to the plans, presented as required supplementary information following the notes to the financial statements, present historical contributions made to each plan. None of these pension plans issue publicly available financial statements.

6. PENSION PLANS...continued
Multiemployer Pension Plans...continued

- The New England Teamsters and Trucking Industry Pension Fund Plan covered the Authority's Licensed Deck Officers. The active union contract was executed effective July 27, 2013, and had a term ending July 29, 2016. The contribution rate, effective October 29, 2013, has been negotiated at $7.50 per hour to a maximum of $315.00 per week, per employee. During 2016, contributions were made for 54 employees totaling $718,879.
- The Marine Engineers Beneficial Association (M.E.B.A.) Pension Plan covered the Authority's Licensed Engineering Officers. The active union contract was executed effective July 30, 2016, and has a term ending July 30, 2021. The contribution rate, effective January 1, 2012, has been negotiated at 11.7% of the total wages per employee. Effective May 1, 2015, an additional $6.00 per day was redirected from the M.E.B.A. Medical and Benefits Plan towards the pension plan. From June 1, 2015 through October 31, 2015 an additional 5.0% surcharge on all contributions was required. During 2016, contributions were made for 47 employees totaling $382,758.
- The New England Teamsters and Trucking Industry Pension Fund Plan covered the Authority's Unlicensed Vessel Employees. The active union contract was executed effective May 16, 2014, and has a term ending April 14, 2017. The contribution rate, effective August 20, 2014, has been negotiated at $4.50 per hour to a maximum of $189.00 per week, per employee. During 2016, contributions were made for 184 employees totaling $1,343,290.
- The New England Teamsters and Trucking Industry Pension Fund Plan covered the Authority's Maintenance Employees. The active union contract was executed effective April 16, 2016, and has a term ending April 16, 2021. The contribution rate, effective April 1, 2011, has been negotiated at $6.37 per hour to a maximum of $254.80 per week, per employee. During 2016, contributions were made for 31 employees totaling $376,028.
- The New England Teamsters and Trucking Industry Pension Fund Plan covered the Authority's Agency and Terminal Employees. The active union contract was executed effective April 16, 2016, and has a term ending April 16, 2021. The contribution rate, effective April 1, 2011, has been negotiated at $4.64 per hour to a maximum of $185.60 per week, per employee. During 2016, contributions were made for 112 employees totaling $840,360.
- The Massachusetts Service Employee's Pension Fund Plan covered the Authority's Reservation Clerks and Group Sales employees. The active union contract was executed effective August 22, 2015, and has a term ending August 24, 2018. The contribution rate, effective January 1, 2013, has been negotiated at $0.55 per hour to a maximum of $22.00 per week, per employee. During 2016, contributions were made for 41 employees totaling $32,128.

The covered payroll of such employees was $25,085,157, $23,655,906 and $17,325,117 in 2016, 2015 and 2014, respectively. The Authority's contributions to the Plans met the contribution requirements in 2016, 2015, and 2014, and aggregated $3,693,443 (14.7% of covered payroll for employees participating in the Plans in 2016), $3,610,789 (15.3% of covered payroll for employees participating in the Plans in 2015), and $2,726,604 (15.7% of covered payroll for employees participating in the Plans in 2014).

6. PENSION PLANS...continued
Multiemployer Pension Plans...continued

In March 2011, the Steamship Authority entered into successor collective bargaining agreements, with Teamster Local 59, with respect to its maintenance employees and its agency and terminal employees. Terms of the agreements allow the Authority to withdraw from the New England Teamsters and Trucking Industry Pension Fund (the "Fund"). The agreements provide that the Authority shall fully satisfy its withdrawal liability to the Fund by making 300 monthly withdrawal liability payments, each in the amount of $83,333, beginning October 2011. In addition, the Authority will enter into the New England Teamsters and Trucking Industry Pension Fund "New Employer Pool." The Authority's participation in the New Employer Pool requires that any future withdrawal liability be computed by the Direct Attribution Method under terms of the Employee Retirement Income Security Act of 1974 (ERISA §4211). In 2016 and 2015, the Authority made payments totaling $1,000,000, respectively, towards the withdrawal liability. Pension withdrawal obligation is recorded in the Statements of Net Position using the present value of the obligation based upon incremental borrowing costs.

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

In addition to the pension benefits described in Note 6, the Authority provides postemployment health care benefits for eligible employees who render at least 20 years of service and attain age 62 while in service until the employee is eligible for Medicare. The benefits, benefit level, employee contributions, and employer contributions are governed by the Authority and collective bargaining agreements. As of December 31, 2016, the actuarial valuation date, approximately 310 active employees and 7 retirees meet eligibility requirements. The plan does not issue separate stand-alone financial statements.

Benefits Provided

Medical coverage, excluding dental, under the group health insurance plan for regular full-time nonunion employees, licensed deck officers, and unlicensed vessel personnel with 20 or more years of service who retire after reaching age 62 will continue until the employee is eligible for Medicare. Coverage for the dependents of such regular full-time employees will also continue during this period provided that the employee pay 50% of the enrollment cost as established annually by the Plan administrator. Once the retired employee is entitled to Medicare, health care coverage for the employee's spouse will continue as provided for under COBRA, provided that the employee pay 100% of the enrollment cost as established annually by the Plan administrator.

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)...continued

Funding Policy

Effective January 1, 2013, the nonunion retired employee must pay 20% of the enrollment cost (the "working rate") as established annually by the Plan administrator. Effective July 27, 2013, the licensed deck officer retired employee must pay 20% of the enrollment cost (the "working rate") as established annually by the Plan administrator. Effective August 2, 2014, the unlicensed vessel retired employee must pay 20% of the enrollment cost (the "working rate") as established annually by the Plan administrator. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

Annual OPEB Costs and Net OPEB Obligation

The Authority's annual OPEB expense is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers*. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period not to exceed 30 years. The components of the Authority's annual OPEB cost for the years ended December 31, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation based on an actuarial valuation as of December 31, are as follows:

	2016	2015
Annual required contribution (ARC)	$ 171,330	$ 197,607
ARC adjustment	41,603	38,599
Interest on net OPEB obligation	(39,744)	(36,874)
Annual OPEB cost	173,189	199,332
Contributions made	(150,003)	(124,237)
Increase in net OPEB obligation	23,186	75,095
Net OPEB obligation, beginning of year	1,040,081	964,986
Net OPEB obligation, end of year	**$ 1,063,267**	$ 1,040,081

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015 and 2014 are as follows:

FISCAL YEARS ENDED	ANNUAL OPEB COST	PERCENTAGE ANNUAL OPEB CONTRIBUTION	NET OPEB OBLIGATION
December 31, 2014	$ 191,070	48.2%	$ 964,986
December 31, 2015	199,332	62.3	1,040,081
December 31, 2016	173,189	86.6	1,063,267

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)...continued

Funded Status and Funding Progress

The funded status of the plan as of December 31, 2016, was as follows:

Actuarial accrued liability (AAL)	$ 2,321,433
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 2,321,433
Funded ratio (actuarial value of plan assets/AAL)	- %
Covered payroll (active plan members)	$ 19,003,148
UAAL as a percentage of covered payroll	12.1%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2016 actuarial valuation, the projected unit credit method was used. The actuarial value of assets was not determined as the Authority has not funded its obligation in advance. The actuarial assumptions included a 4.0% investment rate of return and an annual health care cost trend rate of 5.0%. Both rates include a 3.0% general inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

8. COMMITMENTS

Construction in progress at December 31, 2016 consisted of expenditures by the Authority for various construction projects, which management expects will be completed in the years 2017 and 2018. At December 31, 2016, remaining construction commitments for these capital projects aggregated $18,624,844. In addition, dry-docking and overhaul commitments for vessels aggregated $223,398.

9. CONTINGENCIES

In the normal course of operations, the Authority has been named in various claims and litigation. Based upon information available to counsel and the Authority, management believes that the ultimate outcome from these claims and litigations will not have a material adverse effect on the Authority's financial position.

The Authority applies for and occasionally receives financial assistance from the federal government's various grant programs for specific projects. When this occurs, the entitlements to the resources are generally conditional upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowance become liabilities of the Authority.

10. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased commercial insurance for these risks, except for those risks identified in the following paragraph, which the Authority accounts for in accrued expenses.

Group Health

The Authority has chosen to establish a risk financing fund for risks associated with the employees' health insurance plan. The total charge is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are recorded as a component of accounts payable in the Authority's statements of net position. Claim liabilities are calculated based on recent claim settlement trends, including frequency and amount of pay-outs. The calculation includes a weighted-three-year-average of claims paid by group with an adjustment made to claims to account for increases in medical cost based on the Consumer Price Index — Medical ("CPI- Med"). The Authority carries stop-loss insurance on individual medical claims in excess of $150,000 per person and approximately $2,100,000 in the aggregate, up to a maximum aggregate benefit payment of $1,000,000 per person per year. An analysis of claims activities is presented below:

	2016	2015
Liability, January 1	$ 173,994	$ 569,175
Current-year charges and changes in estimate	1,672,613	1,501,931
Actual claims paid	(1,674,095)	(1,897,112)
Liability, December 31	**$ 172,512**	$ 173,994

Such amounts are recorded as a component of current liabilities in the statements of net position.

11. HEDGE PROGRAM

The Authority manages a fuel oil hedging program, which is intended to take advantage of market conditions to cap fuel expense. The objectives of the program are to (1) identify exposure to movements in energy prices, (2) understand the impact to the Authority's financial position, (3) employ all reasonable and prudent measures to mitigate the impact of price movements, and (4) manage the volatility of energy costs to acceptable levels. The hedge program attempts to transform the unacceptable risks of skyrocketing energy prices into an acceptable form, similar to an insurance policy.

The Steamship Authority's hedging program operates under a non-speculative philosophy and transactions are limited to expected energy volumes anticipated in the normal course of operations. The Authority's hedging strategy may include fixed-price swaps, collars, or caps. The program is designed to allow the Authority to benefit from prices that fall below the cap while offering some protection that pricing will not exceed the cap price.

As of December 31, 2016, the Authority had executed hedging transactions for 2,856,000 gallons of fuel out of the approximate 3,188,000 gallons of fuel which is expected to be used in 2017, as well as transactions for 378,000 gallons of fuel out of the 469,000 gallons of fuel expected to be used in January-March 2018. The cost of these call options totaled $601,848. As the Authority's hedging is for fuel oil used in the operation of its vessels and the monthly call options are for quantities lower than the quantities reasonably expected to be consumed, these activities would be subject to the exclusion provided for in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and not required to be reported as derivative instruments.

12. SUBSEQUENT EVENTS

The Authority has evaluated events and transactions for potential recognition or disclosure through March 31, 2017, when the financial statements were available to be issued.

The Authority entered into various irrevocable stand-by letters of credits with TD Bank, N.A. subsequent to year-end that will serve as collateral for the Authority's public deposits. A listing of issued letters of credits is presented below:

ISSUANCE DATE	DUE DATE	AMOUNT
January 13, 2017	April 10, 2017	$ 250,000.00
January 18, 2017	April 10, 2017	1,250,000.00
January 24, 2017	April 10, 2017	500,000.00
January 27, 2017	April 10, 2017	1,000,000.00
February 3, 2017	April 10, 2017	250,000.00
		$ 3,250,000.00

On March 16, 2017, the Authority's 2017 Series A Steamship Bonds in the amount of $11,060,000 were awarded to Fidelity Capital Markets of Boston, Massachusetts. Net proceeds from the issuance total $12,792,427 and include a reoffering premium of $1,732,427. Proceeds will be used to fund the construction of a new Administration Offices Building on Palmer Avenue in Falmouth, Massachusetts. The bonds were dated March 29, 2017.

SCHEDULE OF CHANGES IN NET PENSION LIABILITY OF THE WOODS HOLE, MARTHA'S VINEYARD AND NANTUCKET STEAMSHIP AUTHORITY PENSION PLAN

REPORTING PERIOD ENDING	12/31/2016	12/31/2015
Total Pension Liability		
Service cost	$ 1,081,252	$ 647,483
Interest	1,681,088	1,632,651
Benefit payments	(370,672)	(319,029)
Difference between expected and actual experience	(177,602)	354,985
Change in assumptions	(895,895)	2,607,925
Net Change in Total Pension Liability	1,318,171	4,924,015
Total Pension Liability, beginning of period	**33,077,455**	28,153,440
Total Pension Liability, end of period	**$ 34,395,626**	$ 33,077,455
Plan Fiduciary Net Position		
Employee contributions	$ 161,527	$ 157,177
Employer contributions	807,637	789,093
Net investment income	(1,179,009)	1,245,714
Benefit payments	(370,672)	(319,029)
Administration expenses	-	(2,064)
Net Change in Plan Fiduciary Net Position	(580,517)	1,870,891
Plan Fiduciary Net Position, beginning of period	**22,311,749**	20,440,858
Plan Fiduciary Net Position, end of period	**$ 21,731,232**	$ 22,311,749
Net Pension Liability		
Net Pension Liability	**$ 12,664,394**	$ 10,765,706
Ratios		
Fiduciary net position as a percentage of total pension liability	63.18%	67.45%
Covered employee payroll	$ 5,381,074	$ 5,160,167
Net pension liability as a percentage of covered employee payroll	**235.35%**	208.63%

* Changes in the pension liability for the years prior to the fiscal year ending December 31, 2015 were not available and accordingly, were not included in the schedule.

SCHEDULE OF EMPLOYER CONTRIBUTION OF THE WOODS HOLE, MARTHA'S VINEYARD AND NANTUCKET STEAMSHIP AUTHORITY PENSION PLAN

	2016	2015
Actuarially determined contribution	$ 1,191,610	$ 936,119
Contributions in relation to the actuarially determined contribution	(807,637)	(789,093)
Contribution deficiency (excess)	$ 383,973	$ 147,026
Covered-employee payroll	$ 5,381,074	$ 5,160,167
Contributions as a percentage of covered-employee payroll	15.01%	15.29%

Notes to Schedule:

Valuation date:	**02/28/2016**	**02/28/2015**
Methods and assumptions used to determine contribution rates:		
Actuarial cost method	Entry Age	
Amortization method	Level percentage of pay	
Remaining amortization period	20-30 years	
Asset valuation method	Market value of assets, as of the measurement date	
Inflation	2.25%	
Salary increases	1.75% plus Table S-5 from the Actuary's Pension Handbook	
Investment rate of return	6.25%	
Retirement age	The age and service at which a participant is eligible for normal retirement depend on the formula which gives the greatest benefit on a consistent retirement age basis for an eligible employee.	
Mortality	Assumed life expectancies based on the RP-2006 Healthy Annuitant Mortality Table. (modified baseline from SOA RP-2014 study) using RP-2014 with Social Security Administration Trustees report for 2014 as a projection scale	

	2016	2015
Schedule of Money-Weighted Investment Returns:		
Annual money-weighted rate of return on plan investments, net of investment expense	-5.21%	6.00%

SCHEDULE OF FUNDING PROGRESS OF THE WOODS HOLE, MARTHA'S VINEYARD AND NANTUCKET STEAMSHIP AUTHORITY OTHER POSTEMPLOYMENT BENEFIT PLAN (UNAUDITED)

YEARS ENDED DECEMBER 31, 2016, 2014, 2012 AND 2010

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF ASSETS	(2) ACTUARIAL ACCRUED LIABILITY (AAL)	(3) UNFUNDED AAL (UAAL)	(4) FUNDED RATIO	(5) COVERED PAYROLL	(6) UAAL AS A PERCENTAGE OF COVERED PAYROLL
			(2) MINUS (1)	(1) DIVIDED BY (2)		(3) DIVIDED BY (5)
December 31, 2010	$ -	$ 2,152,225	$ 2,152,225	0.0%	$ 16,305,706	13.2%
December 31, 2012	-	2,130,447	2,130,447	0.0	17,170,992	12.4
December 31, 2014	-	2,483,899	2,483,899	0.0	17,715,239	14.0
December 31, 2016	-	2,321,433	2,321,433	0.0	19,003,148	12.1

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO THE MULTIEMPLOYER PENSION PLANS (UNAUDITED)

INFORMATION NOTED IS FOR THE LAST 10 FISCAL YEARS

	NEW ENGLAND TEAMSTERS AND TRUCKING INDUSTRY PENSION FUND	MARINE ENGINEERS BENEFICIAL ASSOCIATION PENSION FUND	NEW ENGLAND TEAMSTERS AND TRUCKING INDUSTRY PENSION FUND
YEAR ENDING	LICENSED DECK OFFICERS	LICENSED ENGINEERS	UNLICENSED VESSEL EMPLOYEES
December 31, 2007	$ -	$ -	$ -
December 31, 2008	-	-	-
December 31, 2009	-	-	-
December 31, 2010	-	-	-
December 31, 2011	-	-	-
December 31, 2012	-	253,075	-
December 31, 2013	307,582	315,703	-
December 31, 2014	699,772	313,260	466,630
December 31, 2015	707,332	354,697	1,329,894
December 31, 2016	718,879	382,758	1,343,290

	NEW ENGLAND TEAMSTERS AND TRUCKING INDUSTRY PENSION FUND	NEW ENGLAND TEAMSTERS AND TRUCKING INDUSTRY PENSION FUND	MASSACHUSETTS SERVICE EMPLOYEE'S PENSION FUND
YEAR ENDING	MAINTENANCE EMPLOYEES	AGENCY & TERMINAL EMPLOYEES	RESERVATION CLERKS & GROUP SALES
December 31, 2007	$ 300,047	$ 918,599	$ 58,264
December 31, 2008	327,737	953,020	51,656
December 31, 2009	351,984	966,960	37,984
December 31, 2010	356,664	1,094,156	37,890
December 31, 2011	340,040	928,440	32,167
December 31, 2012	362,013	891,850	31,195
December 31, 2013	366,594	895,432	29,625
December 31, 2014	358,220	861,731	26,991
December 31, 2015	352,182	835,367	31,317
December 31, 2016	376,028	840,360	32,128

EAGLE

The Steamship Authority

SteamshipAuthority.com

P.O. Box 284
Woods Hole, MA 02543